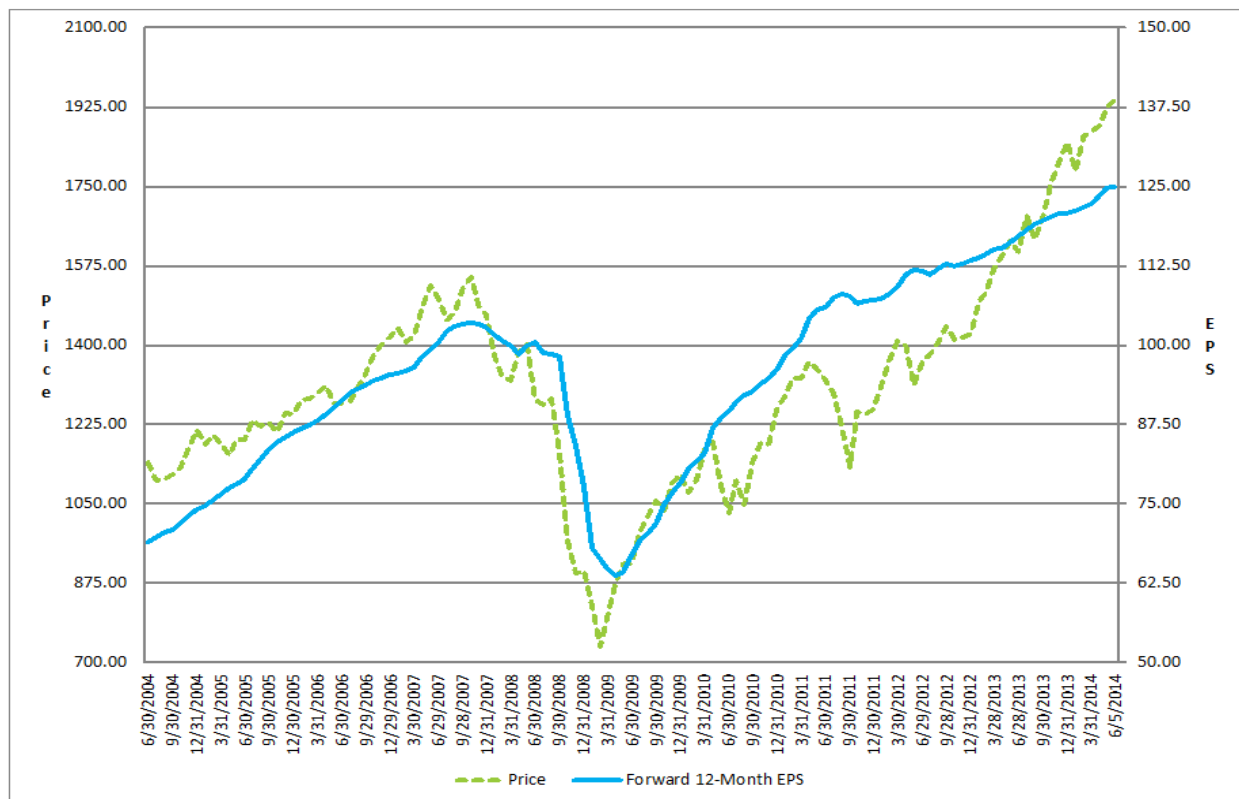


## Key Metrics

- + **Earnings Growth:** The estimated earnings growth rate for Q2 2014 is 5.4%. The Telecom Services sector is expected to report the highest earnings growth for the quarter, while the Financials sector is expected to report the lowest earnings growth for the quarter.
- + **Earnings Revisions:** On March 31, the estimated earnings growth rate for Q2 2014 was 6.9%. Eight of the ten sectors have lower growth rates today (compared to March 31) due to downward revisions to earnings estimates, led by the Materials sector.
- + **Earnings Guidance:** For Q2 2014, 82 companies have issued negative EPS guidance and 27 companies have issued positive EPS guidance.
- + **Valuation:** The current 12-month forward P/E ratio is 15.6. This P/E ratio is above the 5-year average (13.3) and the 10-year average (13.8).
- + **Earnings Scorecard:** Of the 497 companies that have reported earnings to date for Q1 2014, 74% have reported earnings above the mean estimate and 53% have reported sales above the mean estimate.

S&P 500 Forward 12-Month EPS vs. Price: 10-Year



All data published in this report is available on FactSet. Please contact media\_request@factset.com or 1-877-FACTSET for more information.

## Topic of the Week

### Markets and Analysts March to the “Beats” of Different Drums on Apple in Recent Weeks

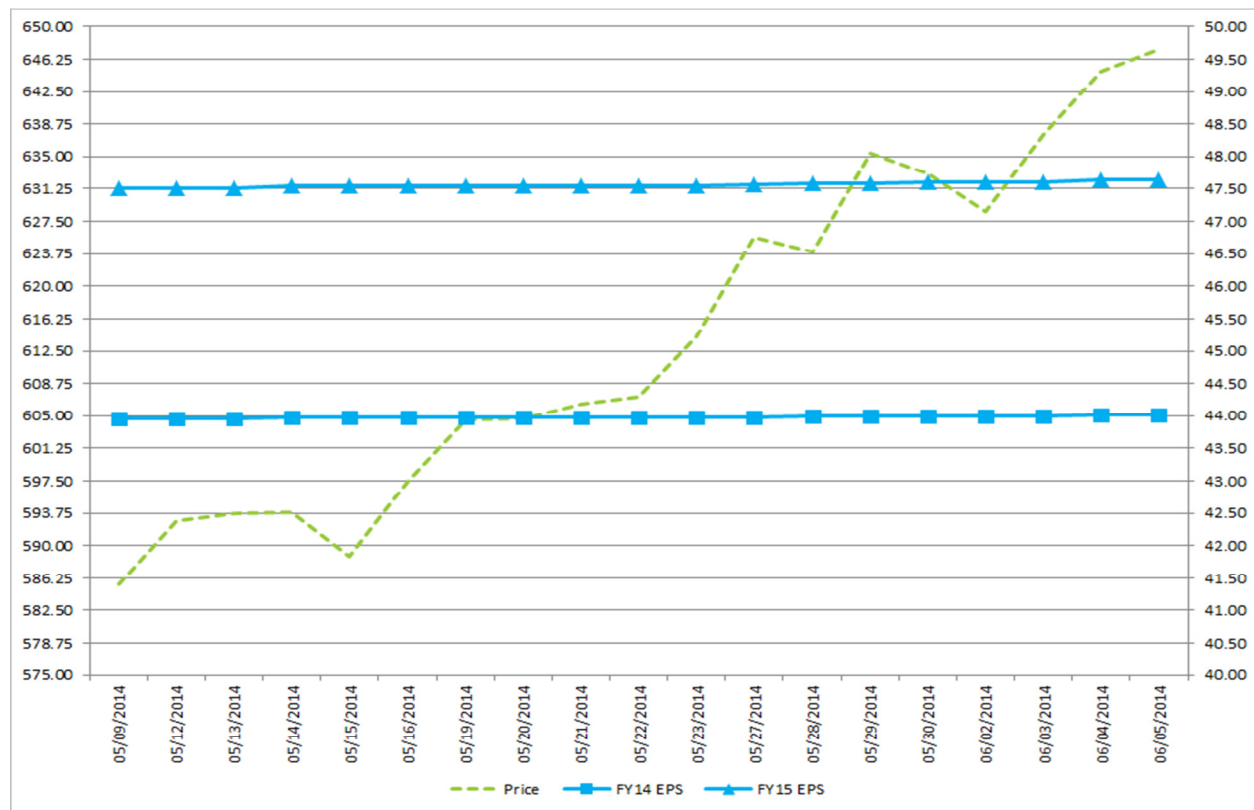
During the past two weeks, Apple has been a focus company for the markets. On May 28, the company announced the acquisitions of Beats Music and Beats Electronics. On June 2, the company unveiled iOS 8, stating that iOS8 was “the biggest release since the launch of the App Store, giving users new features and developers the tools to create amazing new apps.” Given these announcements, have analysts revised their outlook for Apple over the past few weeks? Have there been any significant changes to EPS estimates, ratings, or target prices over this time frame?

In terms of EPS expectations, there has been little change in the EPS estimates for fiscal year 2014 and fiscal year 2015 over the past two weeks. The mean EPS estimate for FY 2014 has increased by only 0.09% during this time frame (to \$44.01 today from \$43.97 on May 23). The mean EPS estimate for FY 2015 has increased by just 0.21% over this period (to \$47.64 today from \$47.54 on May 23).

In terms of targets and ratings, there has been little change in the opinions of analysts over the past two weeks as well. The overall number of Buy ratings declined by one (to 37 today from 38 on May 23) during this time frame, while the number of Hold ratings increased by one (to 13 today from 12 on May 23). There was no change in the number of Sell ratings (2). In terms of target prices, there has been more optimism from analysts in recent weeks. The mean target price for Apple increased 3.4% during the past two weeks (to \$643.70 today from \$622.82 on May 23). However, the current mean target price of \$643.70 is still 0.56% below the June 5 closing price of \$647.35.

The closing price is higher than the current mean target price because it appears that the markets are much more enthusiastic than the industry analysts regarding Apple in recent weeks. Over the past two weeks, the price of the stock has increased 5.4% (to \$647.35 today from \$614.13 on May 23). Over the past four weeks, the price of the stock has increased 10.6% (to \$647.35 today from \$585.54 on May 23).

Apple: Change in EPS vs. Change in Price



## Q2 2014 Earnings Season: Overview

### Analysts Not Slashing Earnings Expectations for Q2

#### Slight Drop in Earnings Growth Rate This Week Due to AT&T

The estimated earnings growth rate for the second quarter is 5.4% this week, slightly below the estimated growth rate of 5.6% last week. Downward revisions to EPS estimates for AT&T accounted for most of the drop in the estimated earnings growth rate for the index this week. The mean EPS estimate for the company decreased to \$0.66 today from \$0.70 last Friday. As a result, the estimated earnings growth rate for the Telecom Services sector fell to 23.1% from 27.0% during the week.

#### Materials Sector Has Seen Largest Cuts to Earnings Estimates since March 31

The estimated earnings growth rate for Q2 2014 of 5.4% is also below the estimate of 6.9% at the start of the quarter (March 31). Eight of the ten sectors have recorded a decline in expected earnings growth since the start of the quarter due to downward revisions to earnings estimates, led by the Materials, Consumer Discretionary, and Telecom Services sectors. Two sectors have recorded an increase in expected earnings growth over this time due to upward revisions to earnings estimates, led by the Health Care sector.

The Materials sector has witnessed the largest dip in expected earnings growth (to 10.7% from 17.7%) since the start of the quarter. Companies in the Metals & Mining industry have seen major reductions to EPS estimates during this time, including U.S. Steel (to -\$0.20 from \$0.52), Allegheny Technologies (to \$0.00 from \$0.02), and Freeport McMoRan Copper (to \$0.54 from \$0.71).

The Consumer Discretionary sector has recorded the second largest decline in expected earnings growth (to 9.7% from 13.4%) since the beginning of the quarter. Companies that have seen the largest cuts to estimates during this time include Amazon.com (to -\$0.13 from \$0.22), News Corporation (to 0.04 from 0.06), Under Armour (to \$0.07 from \$0.11), Coach (to \$0.54 from \$0.70), and Staples (to \$0.12 from \$0.15).

The Telecom Services sector has witnessed the third largest drop in expected earnings growth (to 23.1% from 26.7%) since the beginning of the quarter. Companies that have seen the sharpest cuts to estimates during this time include Frontier Communications (to \$0.05 from \$0.06), Windstream Holdings (to 0.08 from 0.09), and AT&T (to \$0.66 from \$0.70).

On the other hand, the Health Care sector has seen the largest increase in expected earnings growth (to 5.7% from 3.6%) since the start of the quarter. However, only two companies have recorded substantial increases to estimates during this time: Gilead Sciences (to \$1.59 from \$0.93) and Boston Scientific (to \$0.19 from \$0.13). After these two companies, no other company in the sector has seen an increase in the mean EPS estimate of larger than 6.2% over this time frame.

#### Lowest Cuts to Earnings Estimates over First Two Months since Q2 2011

Although the growth rate for the second quarter has dropped since March 31, analysts have cut earnings estimates over the first two months of the quarter by the lowest amount since Q2 2011. The percentage decline in the Q2 bottom-up EPS estimate (which is an aggregation of the earnings estimates for all 500 companies in the index and can be used as a proxy for the earnings for the index) was 1.2% over the first two months of the quarter. This decline in the EPS estimate was lower than the trailing 1-year (-3.1%), 5-year (-1.9%), and 10-year (-3.3%) averages for the first two months of a quarter. In fact, this marked the lowest decline in the bottom-up EPS estimate during the first two months of a quarter since Q2 2011, when the bottom-up EPS estimate actually increased by 1.5%.

**Q2 EPS Guidance: Negative Guidance (75%) Above Average**

At this point in time, 109 companies in the index have issued EPS guidance for the second quarter. Of these 109 companies, 82 have issued negative EPS guidance and 27 have issued positive EPS guidance. Thus, the percentage of companies issuing negative EPS guidance to date for the first quarter is 75% (82 out of 109). This percentage is above the 5-year average of 65%, but below the percentage recorded for Q1 2014 (84%) at the same point in time in the quarter.

**Estimated Earnings Growth: 5.4%**

The estimated earnings growth rate for Q2 2014 is 5.4%. Nine of the ten sectors are projected to report higher earnings relative to a year ago, led by the Telecom Services, Materials, Consumer Discretionary, and Energy sectors. The only sector predicted to report lower earnings relative to a year ago is the Financials sector.

**Telecom Services: Ex-Verizon, Growth Rate Drops to -6.1%**

The Telecom Services sector is expected to report the highest earnings growth rate of all ten sectors at 23.1%. At the company level, Verizon Communications is the largest contributor to earnings growth for the sector. The mean EPS estimate for the company for Q2 2014 is \$0.91, compared to actual EPS of \$0.73 in the year-ago quarter. If Verizon is excluded, the earnings growth rate for the sector would drop to -6.1%.

**Materials: Metals & Mining Lead Growth**

Despite recording the largest drop in expected earnings growth since the start of the quarter, the Materials sector is still projected to have the second highest earnings growth rate of all ten sectors at 10.7%. All five industries in the sector are predicted to report growth in earnings. However, the Metals & Mining industry (+91%) is expected to be the largest contributor to earnings growth for the sector. Within this industry, Freeport-McMoRan Copper (+144%) and Nucor (+122%) are projected to see the largest percentage growth in EPS. If this industry is excluded, the earnings growth rate for the sector would fall to 5.5%.

**Consumer Discretionary: Broad-Based Growth**

The Consumer Discretionary sector is predicted to report the third highest earnings growth of any sector at 9.7%. Growth is projected to be broad-based across the sector. Twenty-three of the 32 sub-industries in the sector are expected to report earnings growth for the quarter, led by the Homebuilding (29%), Internet Retail (22%), and Household Appliances (21%) sub-industries. On the other end of the spectrum, the Apparel, Accessories, and Luxury Good (-9%) sub-industry is projected to have the largest decline in earnings for the quarter.

**Energy: Growth Expected for 1<sup>st</sup> Time since Q1 2013**

The Energy sector is expected to have the fourth highest earnings growth rate at 9.3%. If the sector reports any earnings growth for the quarter, it will mark the first time since Q1 2013 (1.1%). Five of the seven sub-industries in the sector are predicted to report growth for the quarter, led by the Oil & Gas Refining & Marketing (45%) sub-industry. On the other hand, the Coal & Consumable Fuels (-118%) sub-industry is expected to see the largest decline in earnings.

**Financials: 2<sup>nd</sup> Consecutive Decline in Earnings**

The Financials sector is the only sector expected to report a year-over-year decline in earnings (-1.3%). If the sector does report a decline, it will mark the second consecutive quarter the sector has reported a year-over-year drop in earnings. Four of the eight industries in the sector are predicted to report a decrease for the quarter, led by the Thrifts & Mortgage Finance (-17%) and Banks (-7%) industries.

**Estimated Revenue Growth: 3.1%**

The estimated revenue growth rate for Q2 2014 is 3.1%, which is below the estimated growth rate of 3.7% at the start of the quarter (March 31). Nine of the ten sectors are expected to report revenue growth for the quarter, led by the Health Care sector. On the other hand, the Energy sector is the only sector predicted to report a decline in revenue for the quarter.

**Highest Sales Growth: Health Care**

The Health Care sector is expected to report the highest revenue growth at 8.3%. All six industries in the sector are predicted to report sales growth for the quarter, led by the Biotechnology (32%) industry.

**Lowest Sales Growth: Energy**

The Energy sector is the only sector that is predicted to report a decrease in revenue at -0.5%. However, only two of the seven sub-industries in the sector are expected to report a decline in revenue: Oil & Gas Exploration & Production (-18%) and Coal & Consumable Fuels (-13%).

**Global Concerns: F/X Rates, Europe (Ukraine/Russia), and Emerging Markets****Less Favorable F/X Rates**

The U.S. dollar has strengthened relative to number of currencies over the past year, particularly in emerging markets. A number of companies in the S&P 500 cited a negative impact from foreign exchange activity in their earnings releases or conference calls in Q1. Will this trend continue in Q2?

*"This quarter, currency was a 1% headwind to new software license, and a 2% headwind to hardware and total revenue. In addition, EPS this year was reduced by \$0.02 due to a currency remeasurement non-operating loss for Venezuela that obviously had not been included in my guidance." – Oracle (Mar. 19)*

*"Foreign exchange translation reduced net sales growth by 1 percentage point." – General Mills (Mar. 19)*

*"From a year-over-year currency perspective, FX decreased revenue by \$10.9 million." –Adobe Systems (Mar. 18)*

**Europe: Will Russia/Ukraine Conflict Derail Growth?**

Europe reported an improvement in economic growth relative to last year. According to FactSet Economics, the European Union recorded an increase in GDP of 1.4% in Q1 2014, relative to the decline of 0.7% reported in Q1 2013.

While acknowledging difficult conditions still exist in the region, some companies were optimistic in their comments regarding Europe for Q1.

*"I also want to speak to our results in Europe, where our volume was down 4% as our business was adversely impacted due to the Easter shift and by ongoing macroeconomic challenges...As we look ahead, we are cautiously optimistic about our outlook in Europe, despite the continuing volatile operating environment." –Coca-Cola (Apr. 15)*

*"Yeah, Costa has picked up as well, but Costa had the double-whammy of the disruption and then obviously the European economy. And the European economy is still choppy, but it's obviously strengthened.... And I would say in general, in Europe, we do, as I mentioned earlier on the call, with the booking curves being moved out, we see strength in Europe. And again, it's reflected in our guidance, but we actually see a strong performance collectively in Europe this year." –Carnival Corp. (Mar. 25)*

However, will there be an escalation in the crisis in Ukraine that could derail the rebound in economic growth in Europe? Few companies cited a negative impact from the region in Q1 (please see our Market

Insight on the topic for more details: [http://www.factset.com/insight/2014/5/marketinsight\\_5.21.14](http://www.factset.com/insight/2014/5/marketinsight_5.21.14)), but some did express concerns about the potential impact of an escalation of the crisis.

*“While we're hopeful that the situation in Russia and the Ukraine will be resolved, if it does get worse and has an impact on business confidence, world trade and world growth, it could certainly be a negative for us.” –Caterpillar (Apr. 24)*

*“In Europe, the economy is showing signs of recovery and faster growth. Yet, if the situation in the Ukraine deteriorates, that pace may slow.” –UPS (Apr. 24)*

### Emerging Markets

Economic growth for countries in emerging markets regions has been flat or slightly below year-ago levels in recent quarters. According to FactSet Economics, China recorded GDP growth of 7.7% in Q1 2013. By Q1 2014, GDP growth for China stood at 7.4%. Will companies see a slowdown in sales growth in emerging markets in Q2 2014?

*First, emerging markets. From a macroeconomic perspective, continue to be challenging. Orders in our emerging markets declined 7% with the BRICs plus Mexico down 13%. As we said for several quarters we expect these challenges to continue. The challenges we saw in Brazil, down 27%, and Russia down 28%, are consistent with those we are hearing and seeing from our peers and customers. While China declined 8%, Mexico declined 3%, and India declined 1%. –Cisco Systems (May 14)*

*“The growth markets were down 5%. And within the growth markets we had high single digit growth in Latin America. But revenue from the Asia-Pacific countries declined at a double-digit rate with continued weakness in China. Our revenue in China was down 20%. So pretty consistent with the last couple of quarters.” –IBM (Apr. 16)*

*“But also, importantly, we are driving not just volume growth, but we're driving immediate consumption growth, which is really important for our business. When you look at, say, in this past quarter, with top five countries growing at – China up 18% in IC growth, Indonesia up 9% in IC growth, Vietnam up 8%, Brazil up 5%. These are really important numbers, because it's sustainable growth, it's profitable growth, and it's growth in transactions, which is directly married to the health of the brands and health of our portfolio.” –Coca-Cola (Apr. 15)*

*“In greater China we continue to see encouraging signs as our market reset actions take hold. In Q3, currency neutral revenue grew 7% led by expansion in sportswear, basketball and running. On a reported basis, greater China revenue grew 9% and EBIT increased 7% as revenue growth and gross margin expansion were partially offset by higher SG&A spending reflecting investments in our new China headquarters facility and DTC operations.” –NIKE (Mar. 20)*

### Near Double-Digit Earnings Growth Expected in 2<sup>nd</sup> Half of 2014

Although companies reported slight earnings growth (2.1%) for Q1, earnings growth for the S&P 500 is projected to be much higher for the remainder of the year. For Q2 2014, Q3 2014, and Q4 2014, analysts are predicting earnings growth rates of 5.4%, 9.5%, and 10.1%. For all of 2014, the projected earnings growth rate is 7.6%.

### Valuation: Forward P/E Ratio is 15.6, above the 10-Year Average (13.8)

The current 12-month forward P/E ratio is 15.6. At the sector level, the Consumer Discretionary (17.9) and Consumer Staples (17.9) sectors have the highest forward 12-month P/E ratios, while the Financials (13.2) and Telecom Services (13.5) sectors have the lowest forward 12-month P/E ratios.

The P/E ratio of 15.6 for the index as a whole is above the prior 5-year average forward 12-month P/E ratio of 13.3, and above the prior 10-year average forward 12-month P/E ratio of 13.8. It is also above the forward 12-month P/E ratio of 15.3 recorded one month ago. During the past month, the price of the index increased by 3.0%, while the forward 12-month EPS estimate increased by 0.9%.

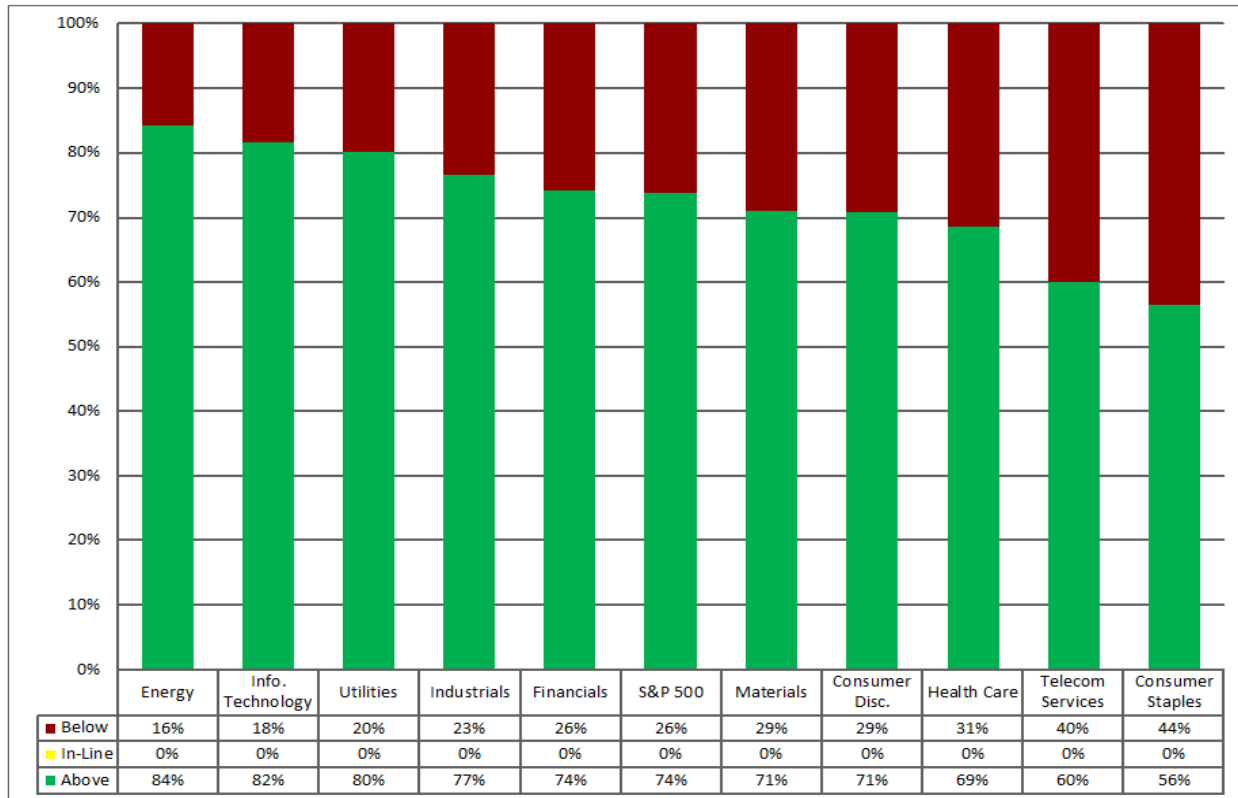
At the sector level, eight sectors recorded an increase in the forward 12-month P/E ratio over the past month, led by the Information Technology (to 15.3 from 14.9) and Financials (to 13.2 from 12.8) sectors. The Utilities sector (to 16.2 from 16.3) was the only sector that witnessed a decrease in the forward 12-month P/E ratio over the past month, while the Energy (14.1) was the only sector that saw no change in the forward 12-month P/E ratio over this time frame.

**Companies Reporting Next Week: 1**

During the upcoming week, one S&P 500 company is scheduled to report earnings for the first quarter.

Q1 2014: Scorecard

Q1 2014 Earnings: Above, In-Line, Below Estimates



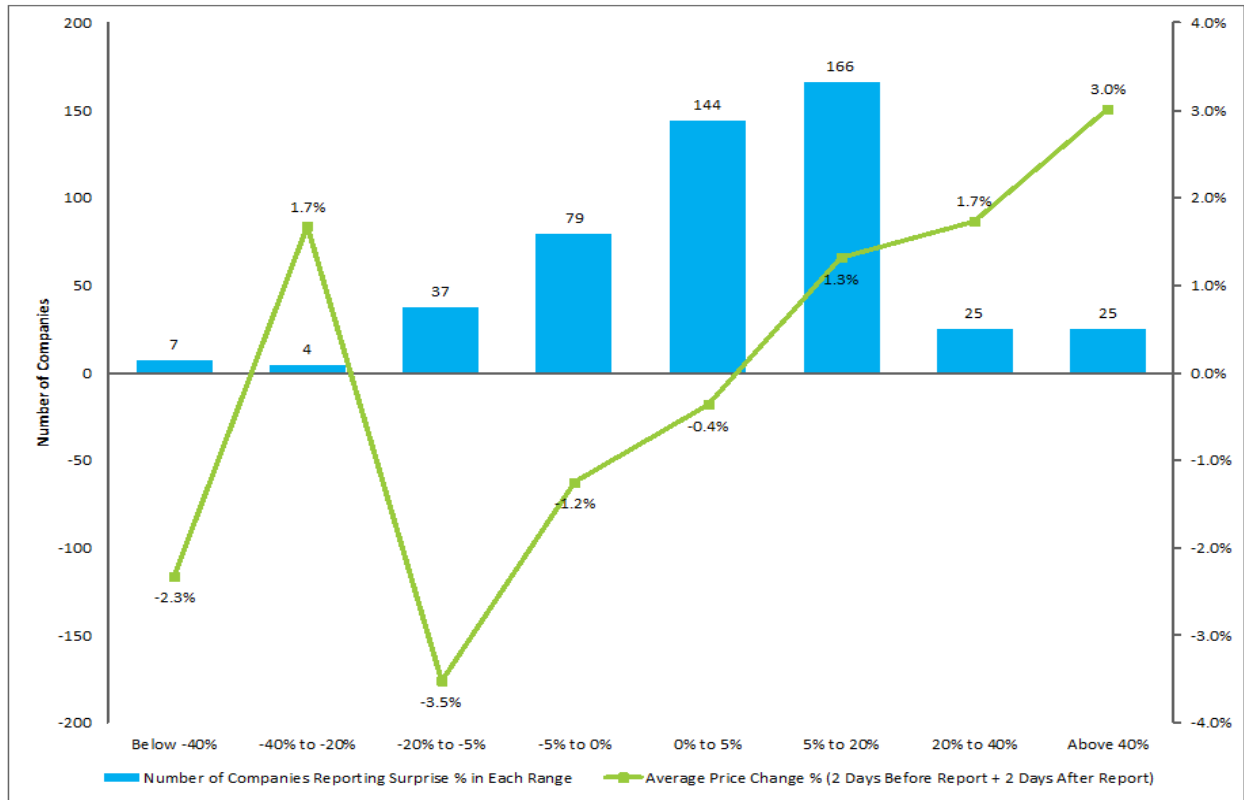
Q1 2014 Revenues: Above, In-Line, Below Estimates



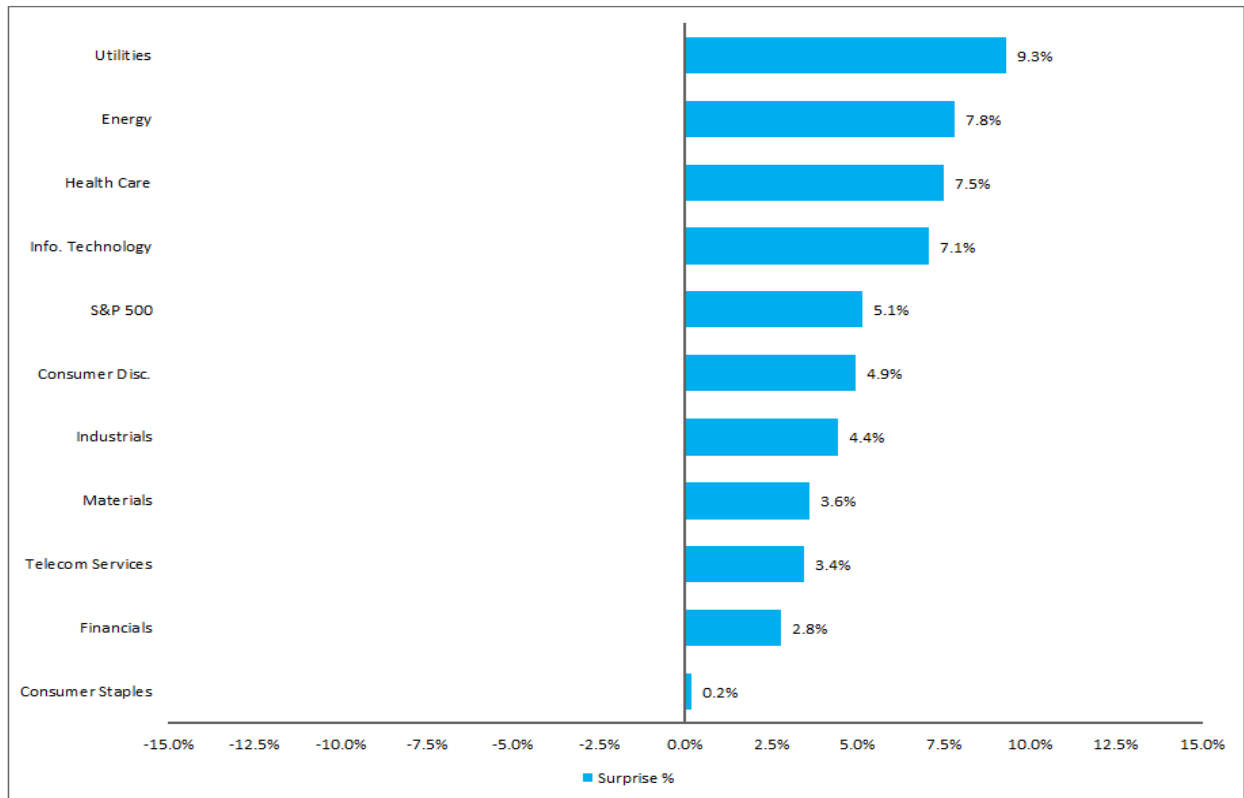


Q1 2014: Scorecard

Q1 2014: EPS Surprise % vs. Price %

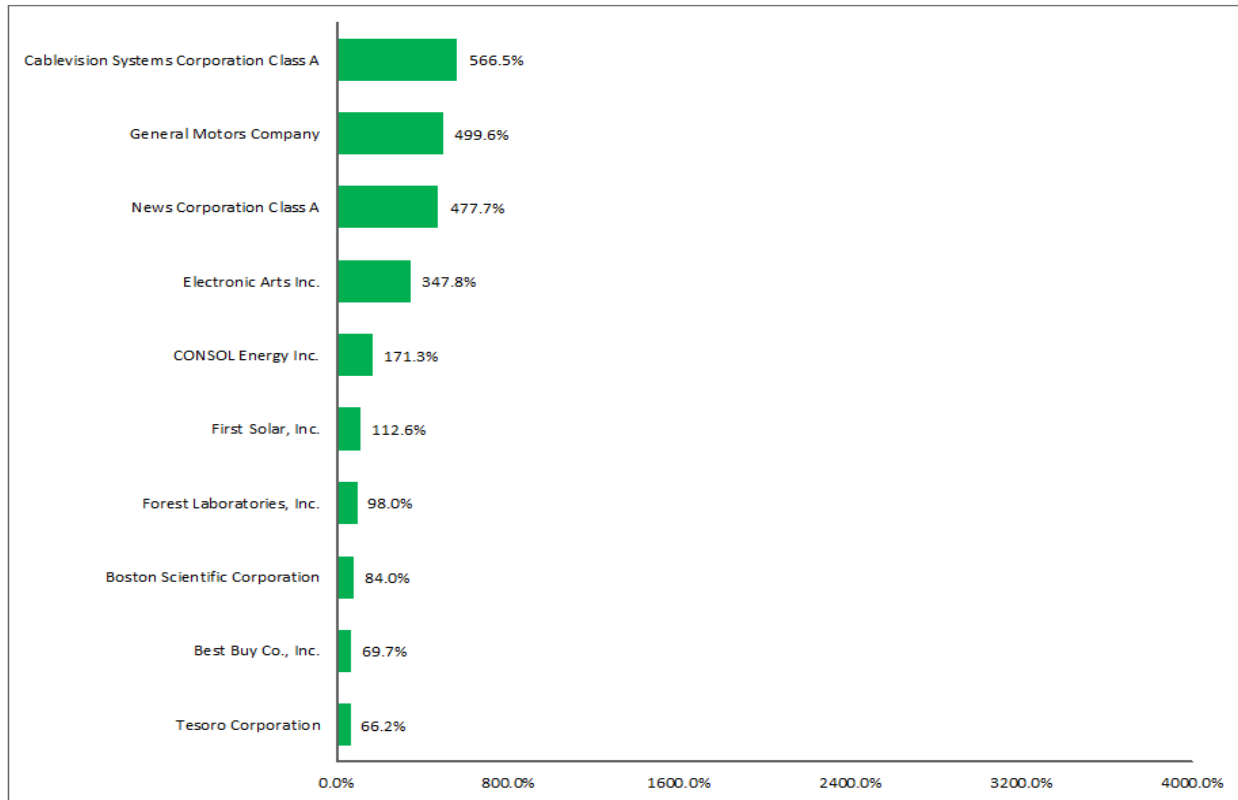


Q1 2014: Sector Level EPS Surprise %

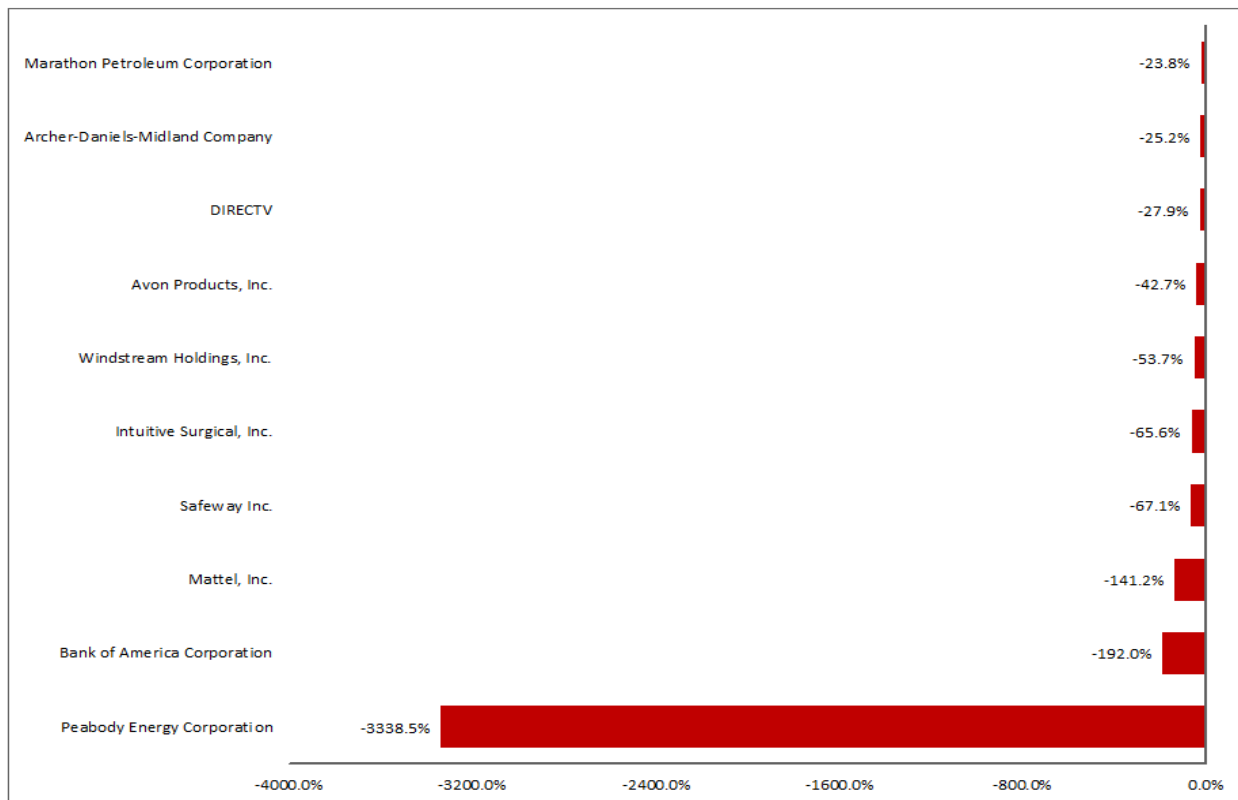


Q1 2014: Scorecard

EPS Surprise %: Top 10 Companies

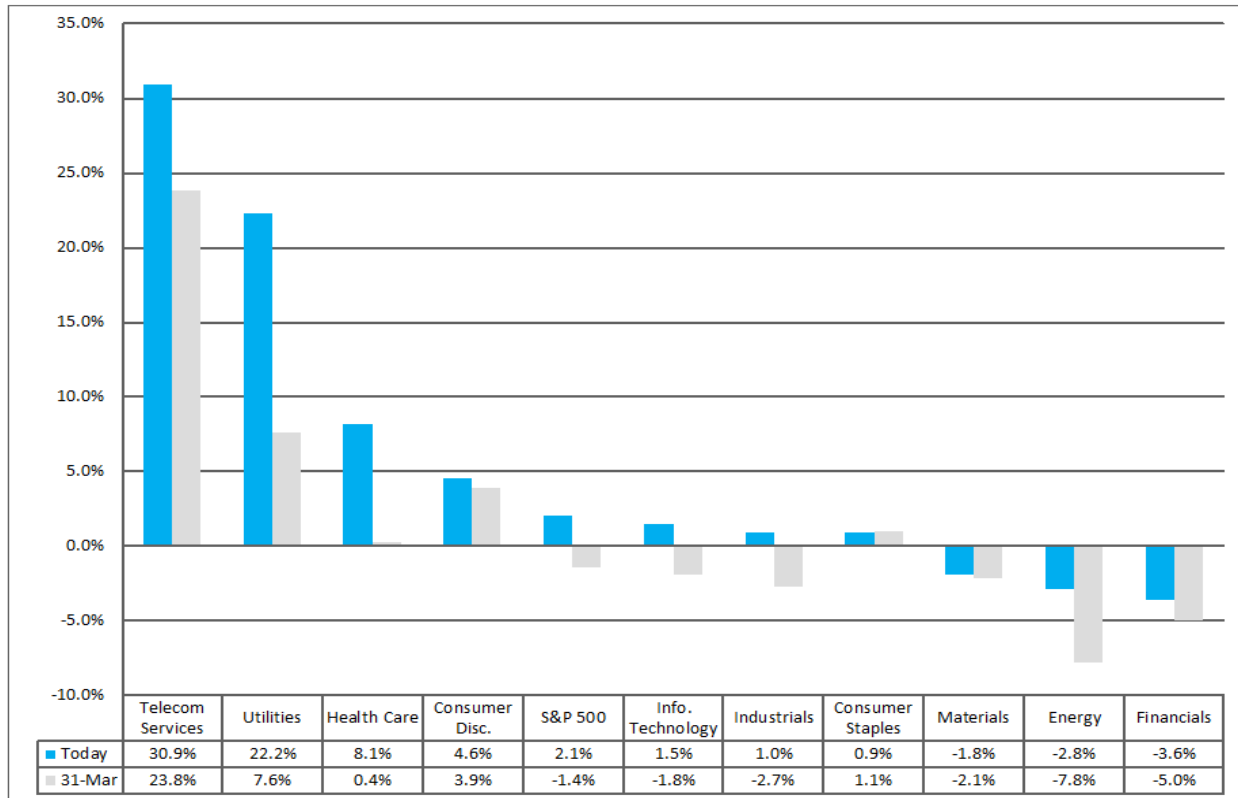


EPS Surprise %: Bottom 10 Companies

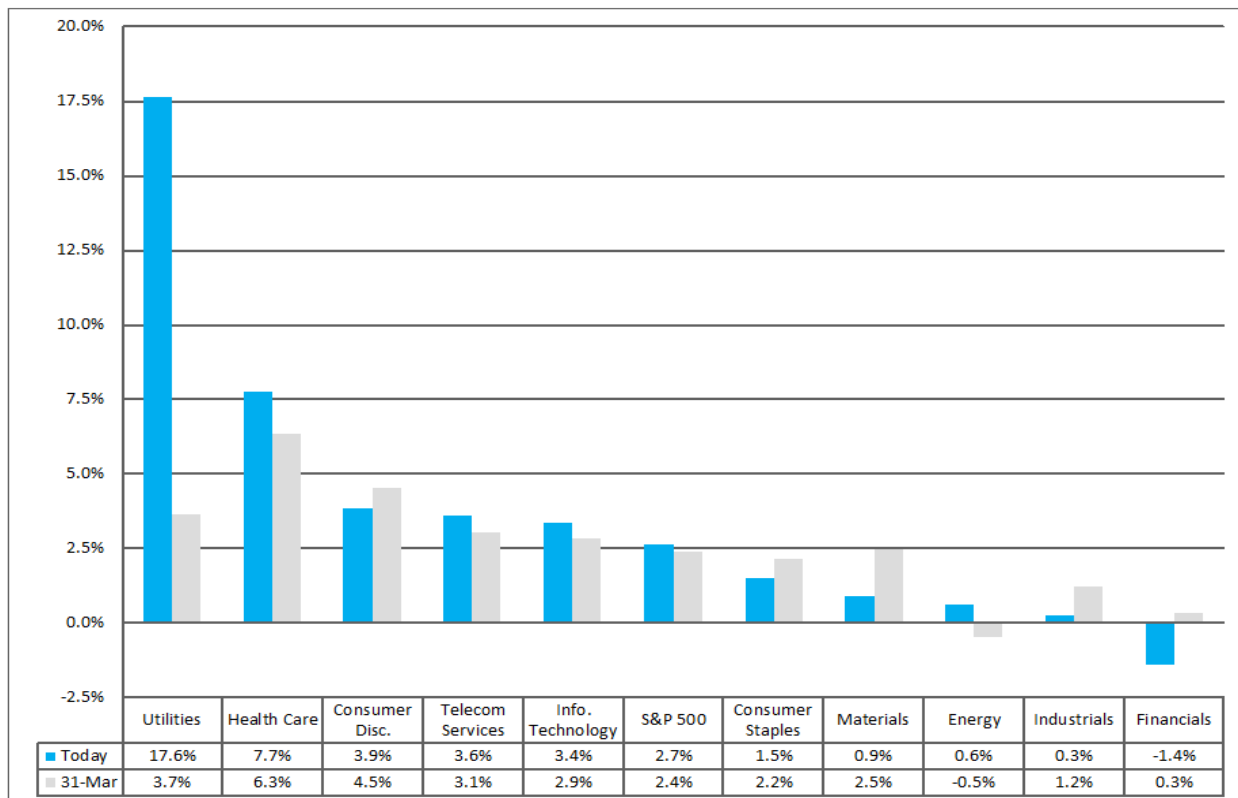


Q1 2014: Growth

Q1 2014 Earnings Growth

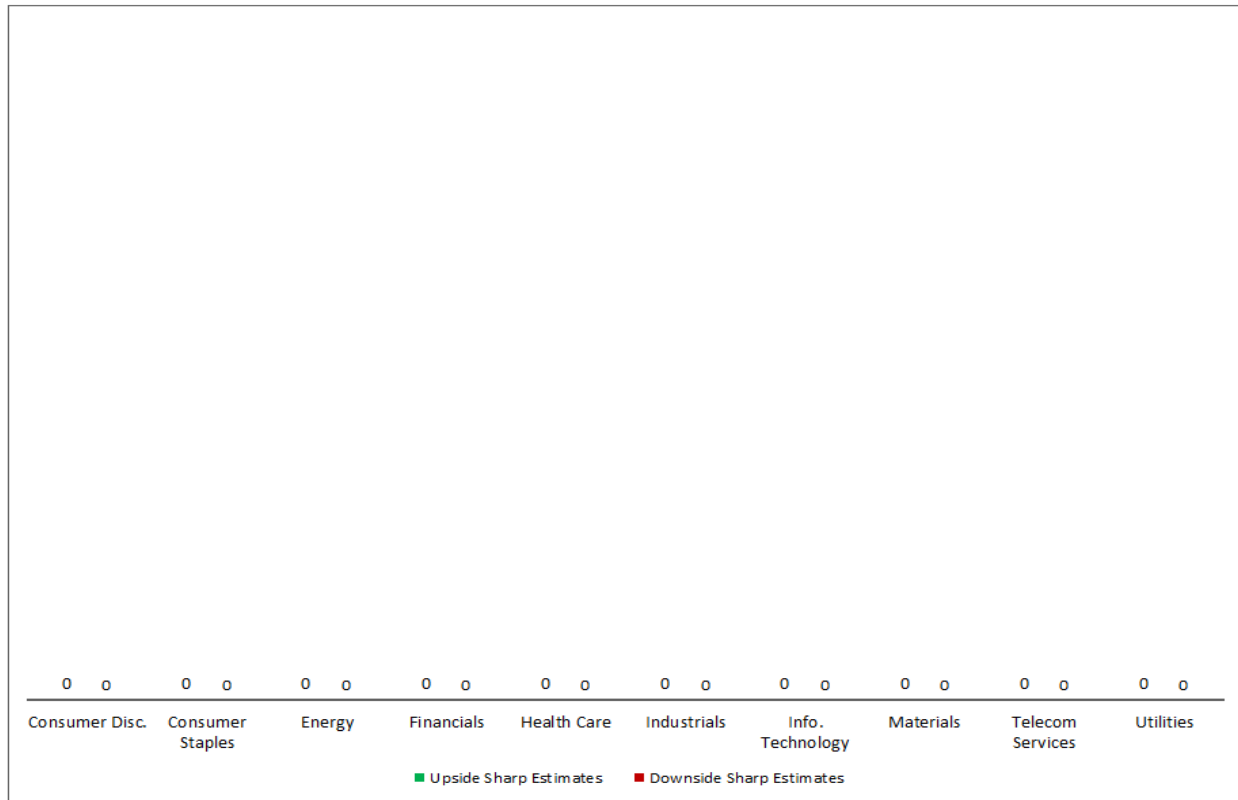


Q1 2014 Revenue Growth

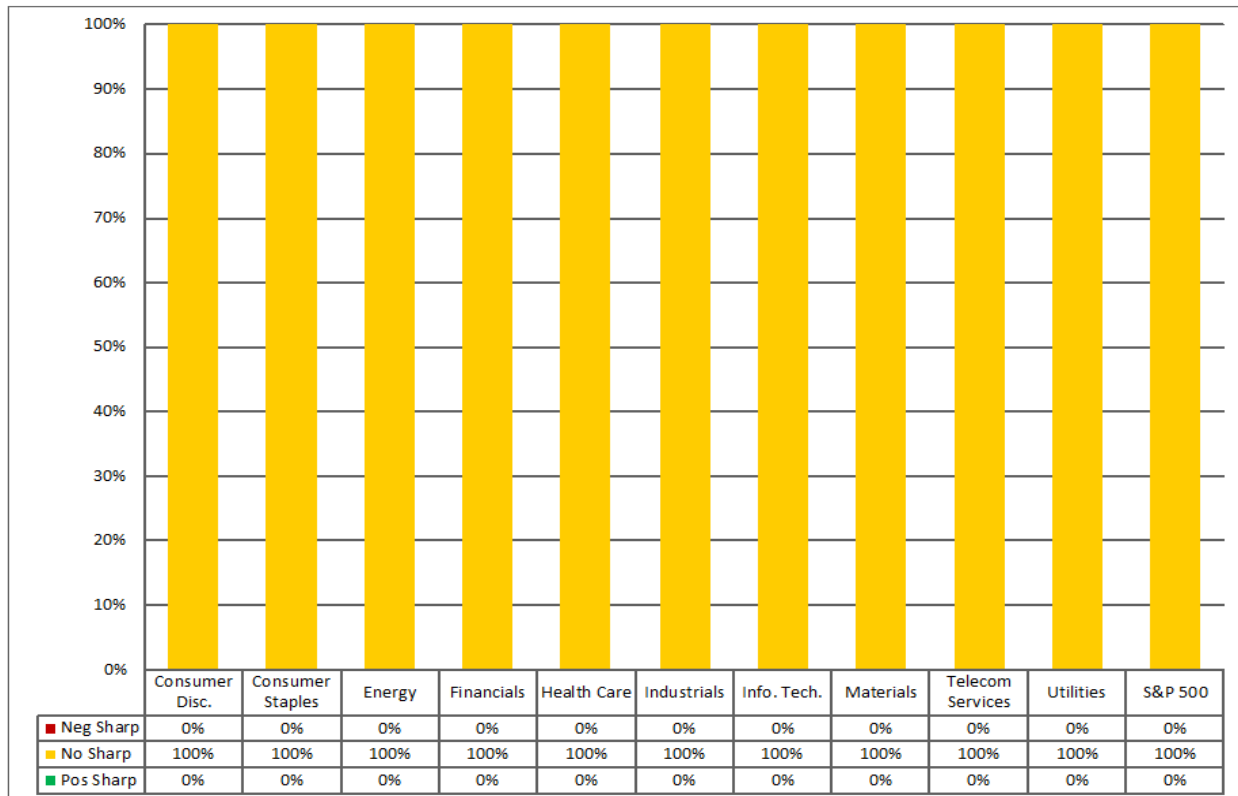


## Q1 2014: Projected EPS Surprises (Sharp Estimates)

Number (#) of Companies with Sharp Estimates

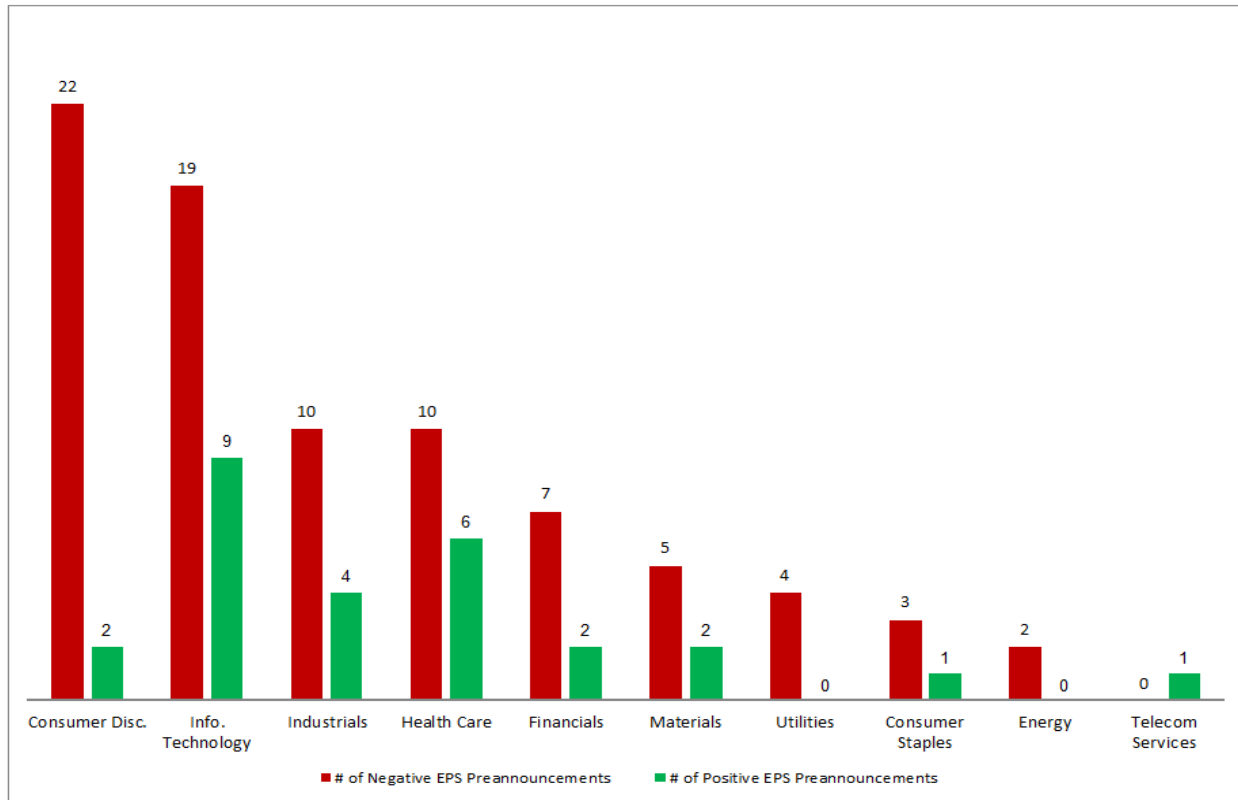


Percentage (%) of Companies with Sharp Estimates

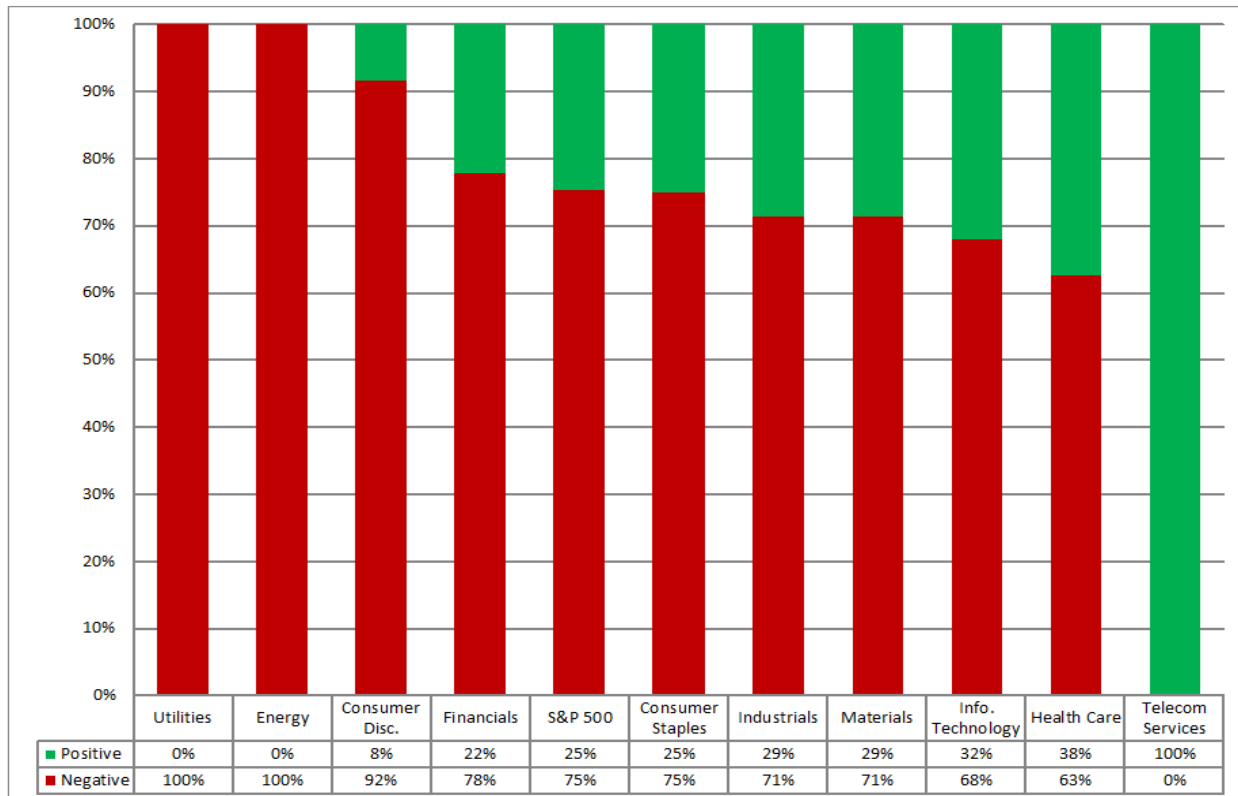


## Q2 2014: EPS Guidance

Number of Positive & Negative EPS Preannouncements: Q2 2014

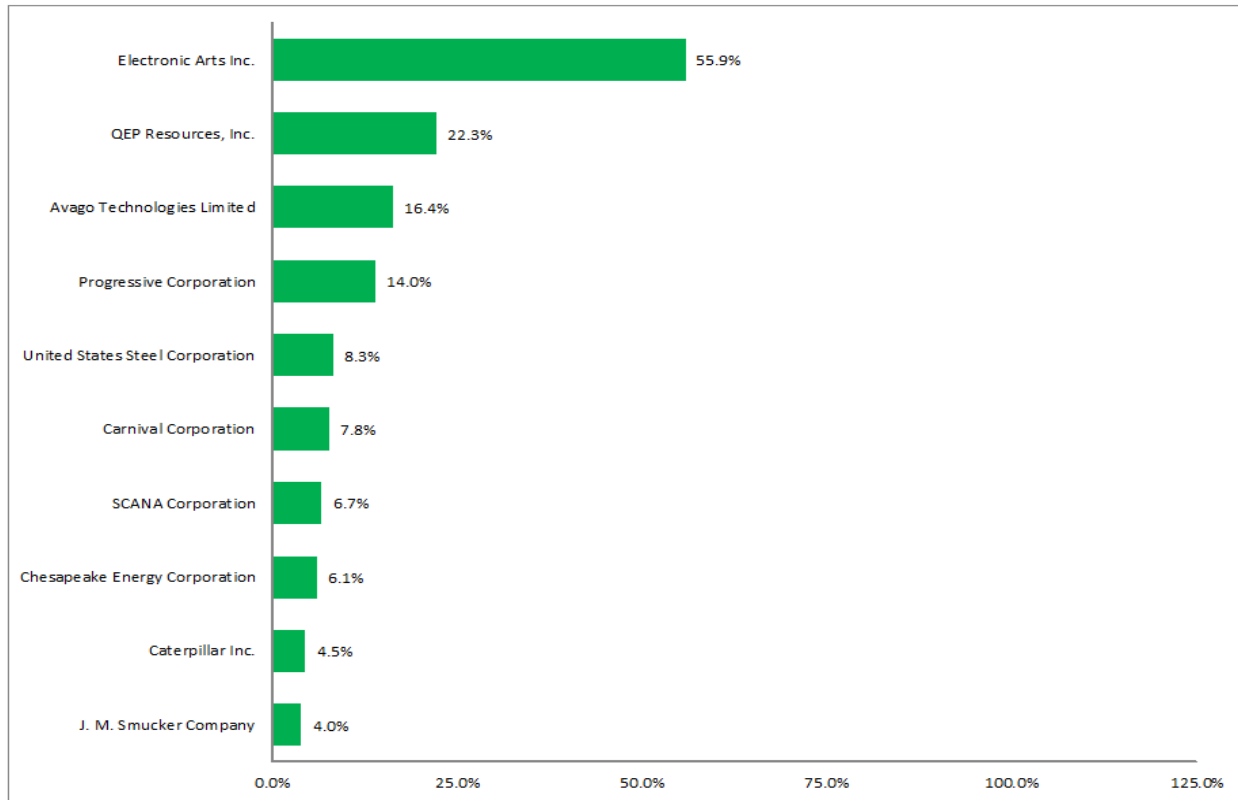


Percentage of Positive & Negative EPS Preannouncements: Q2 2014

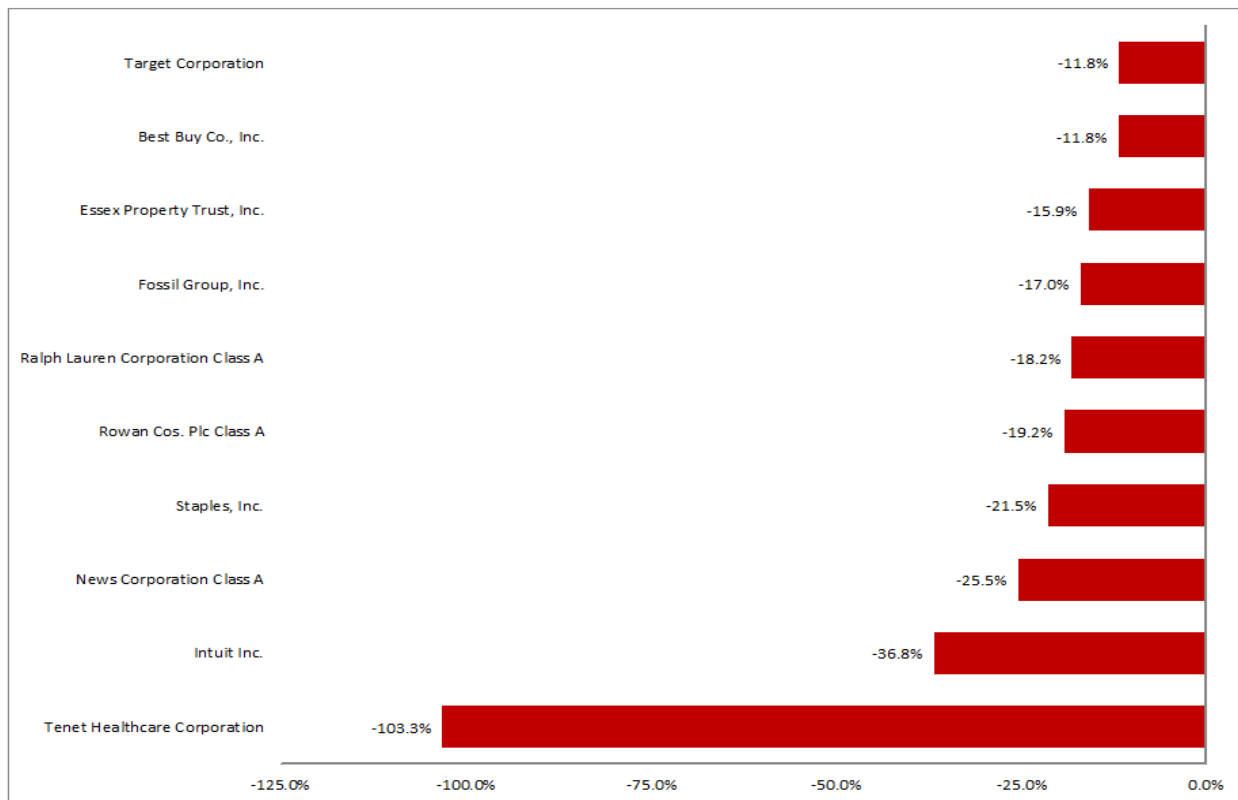


## Q2 2014: EPS Revisions

Highest Upward Change (Trailing 4-Weeks) in Mean EPS Estimate: Top 10 Companies

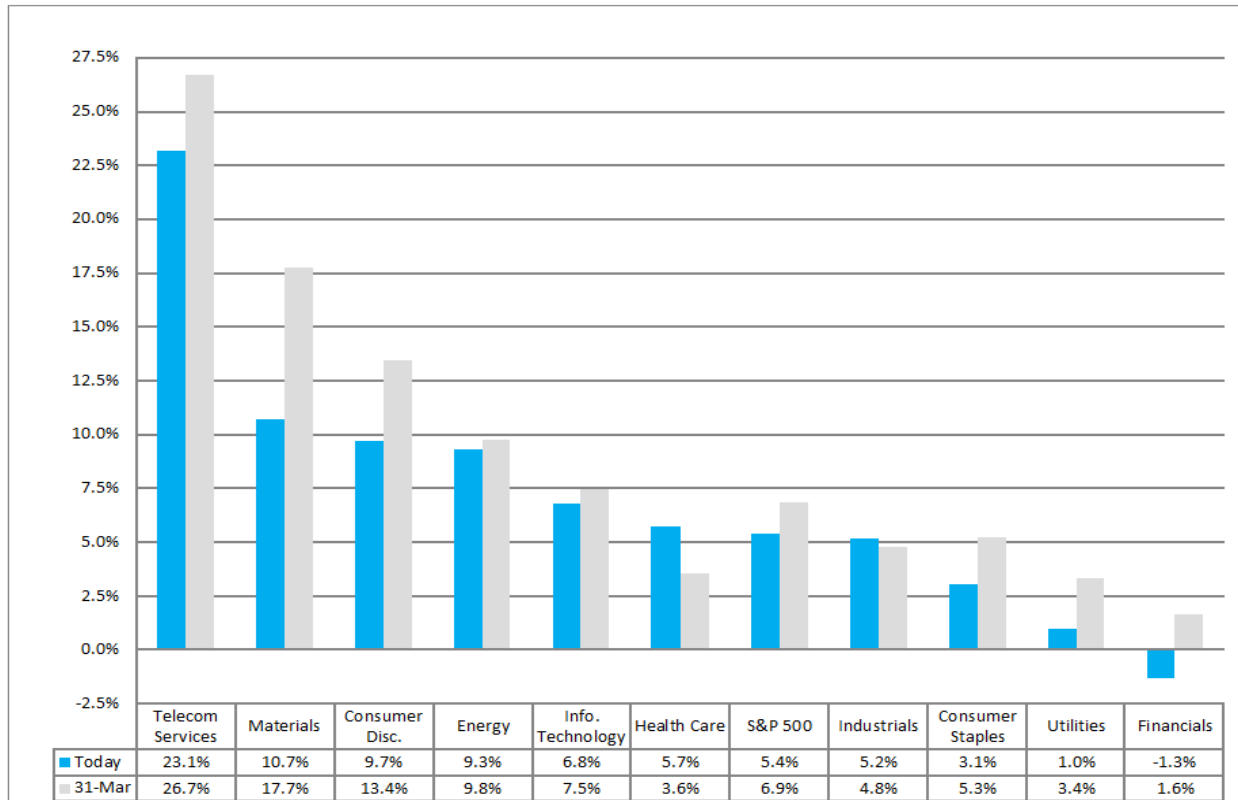


Highest Downward Change (Trailing 4-Weeks) in Mean EPS Estimate: Top 10 Companies

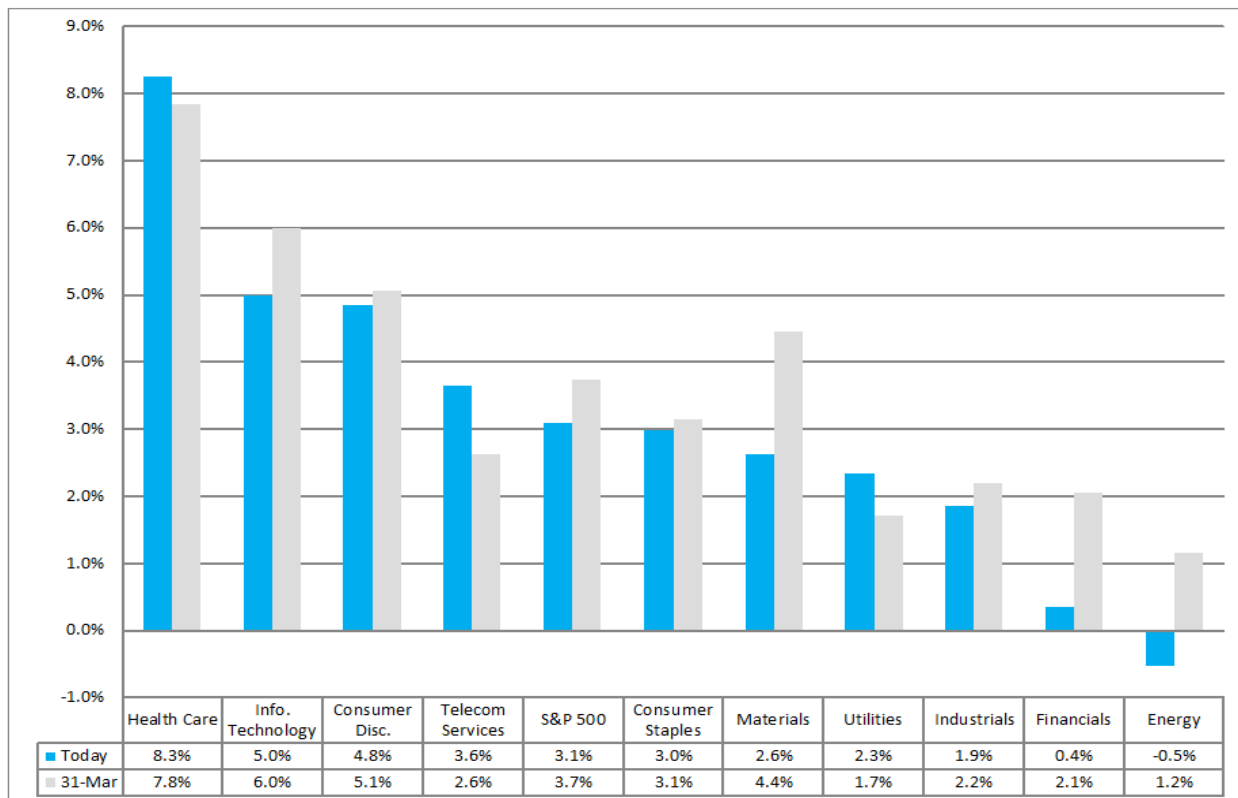


Q2 2014: Growth

Q2 2014 Earnings Growth

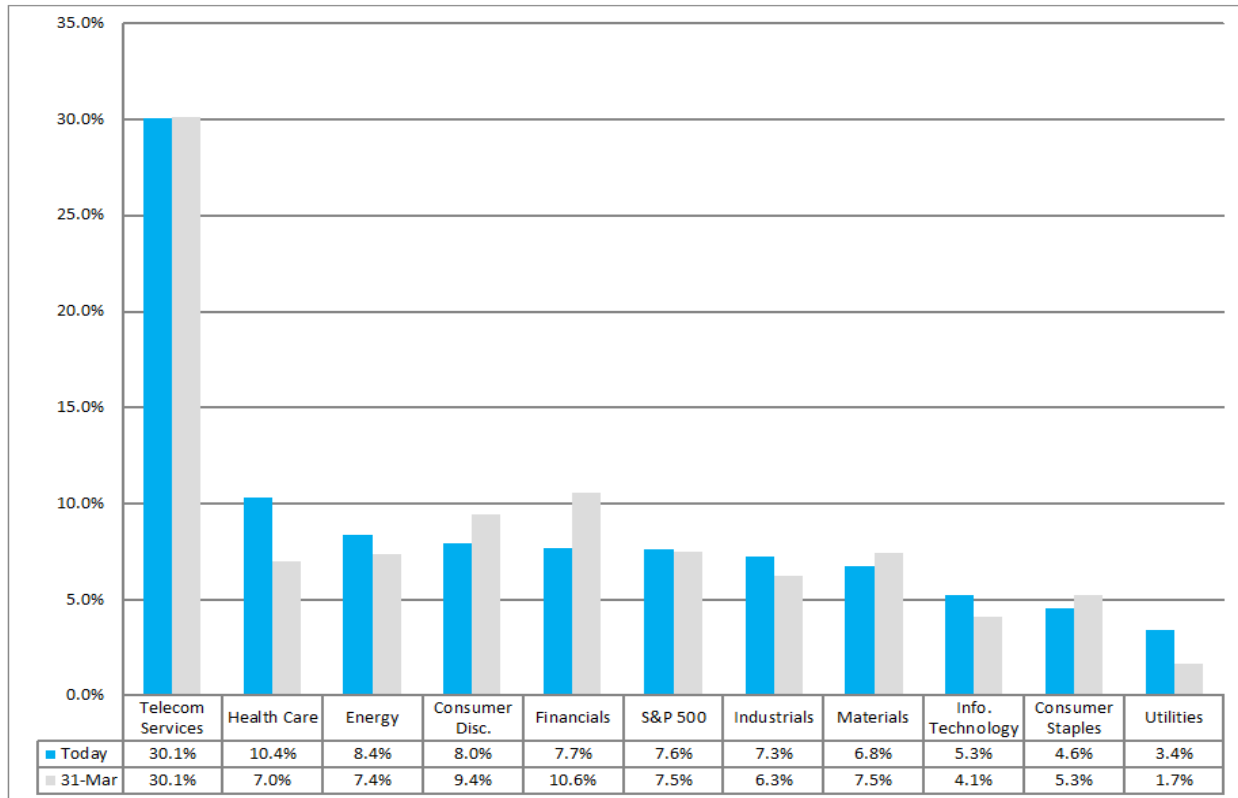


Q2 2014 Revenue Growth

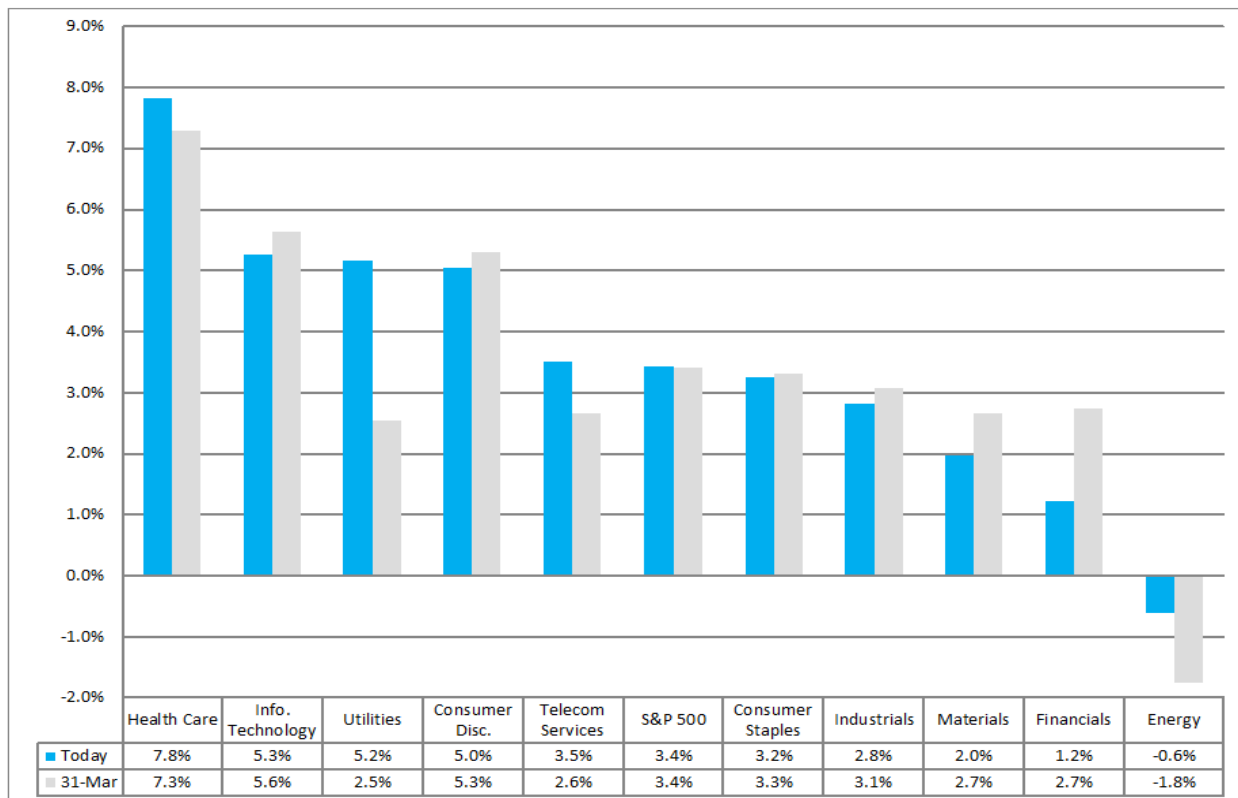


CY 2014: Growth

CY 2014 Earnings Growth



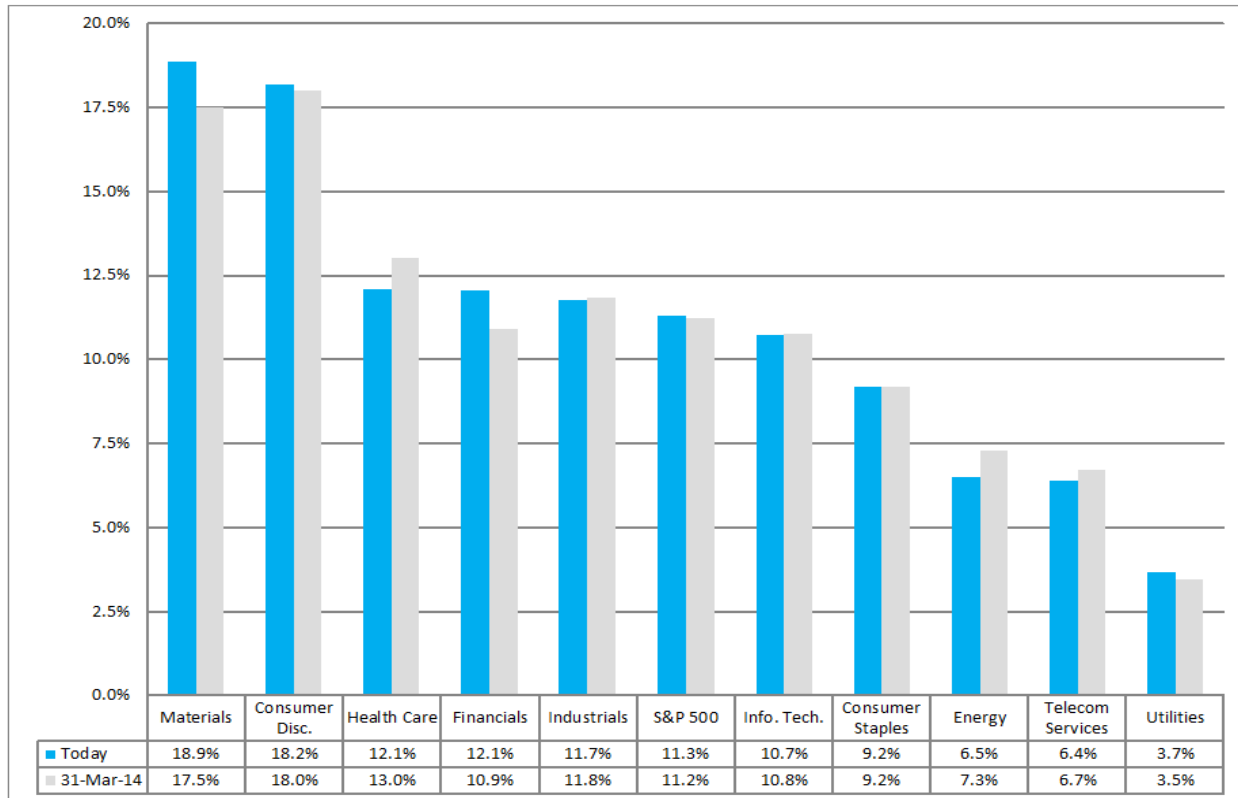
CY 2014 Revenue Growth



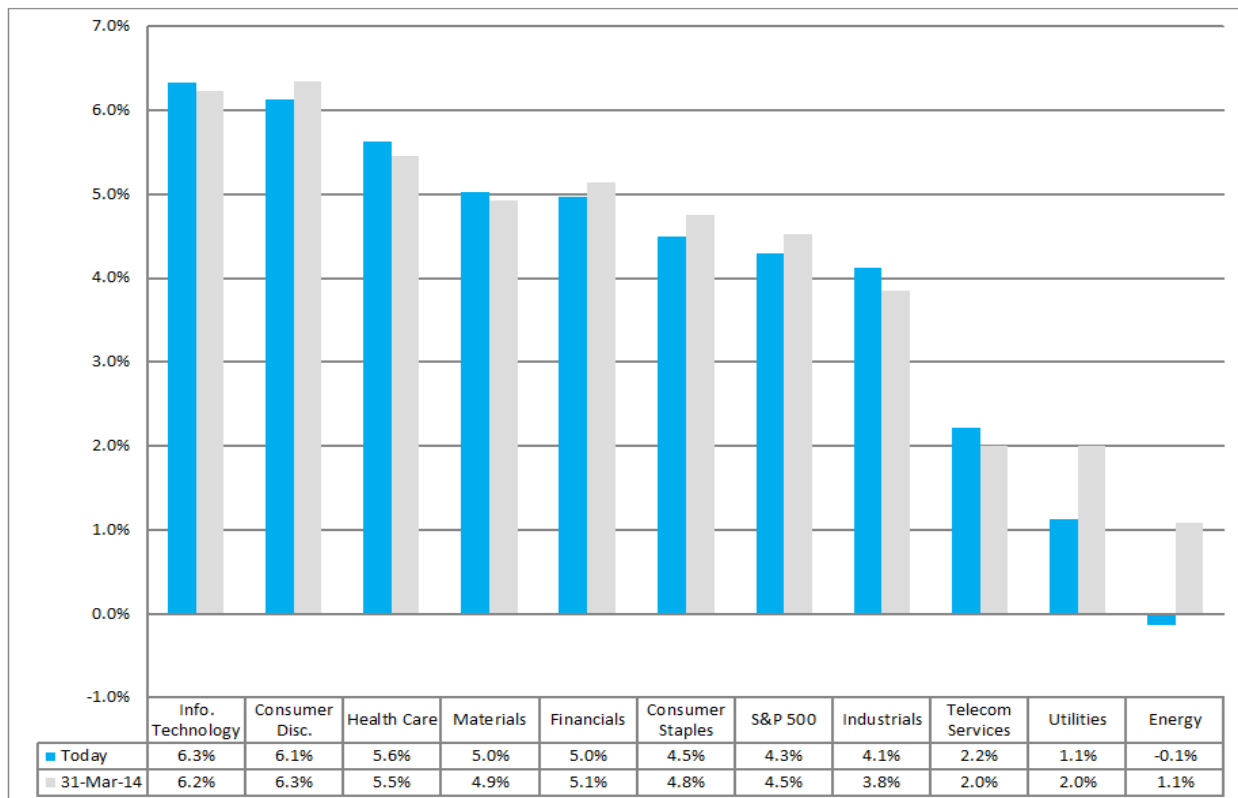


CY 2015: Growth

CY 2015 Earnings Growth

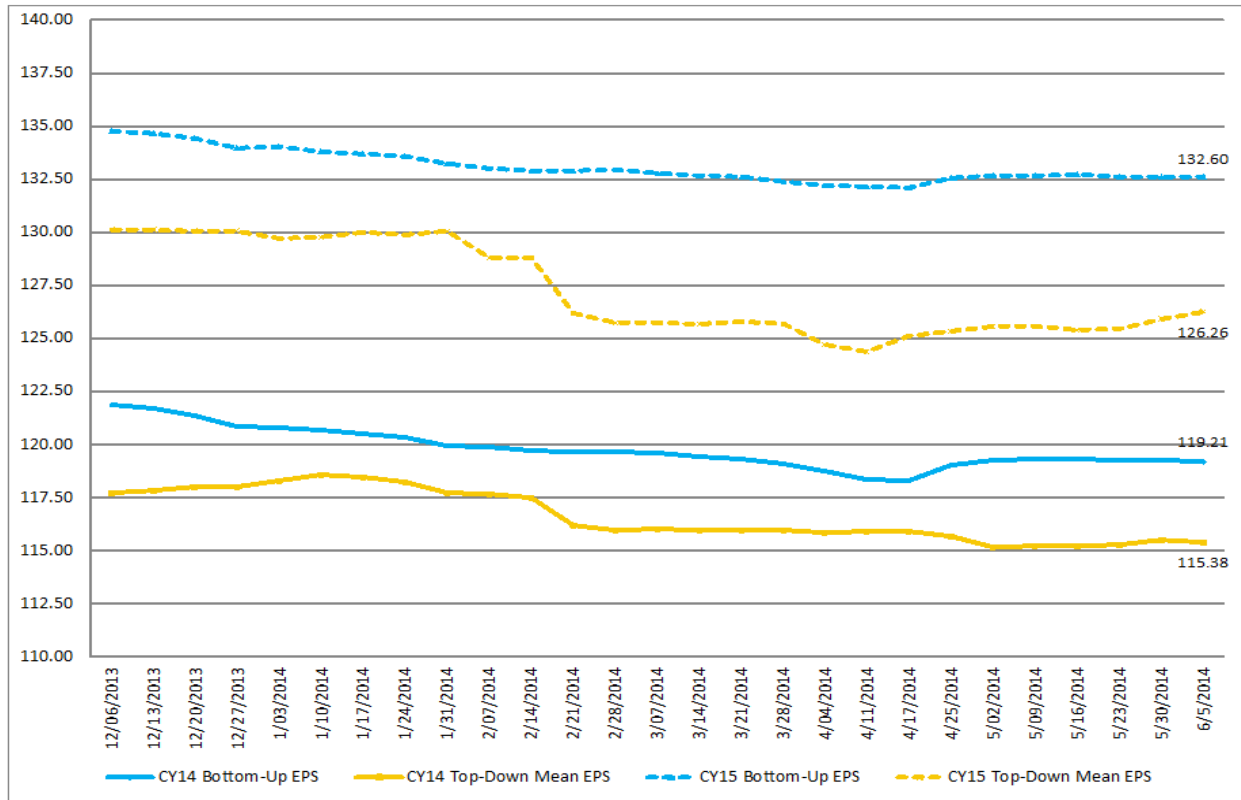


CY 2014 Revenue Growth

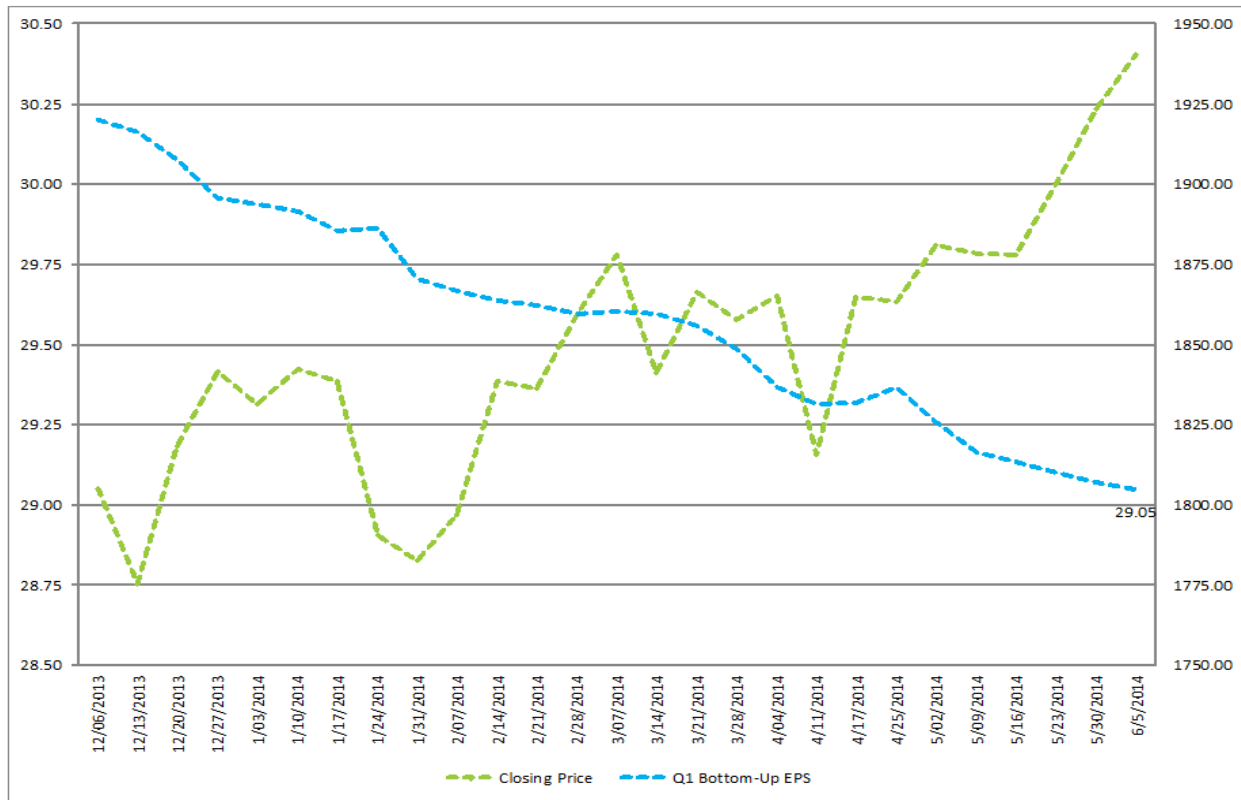


## Bottom-up EPS Estimates: Revisions

CY Bottom-Up EPS vs. Top-Down Mean EPS (Trailing 26-Weeks)

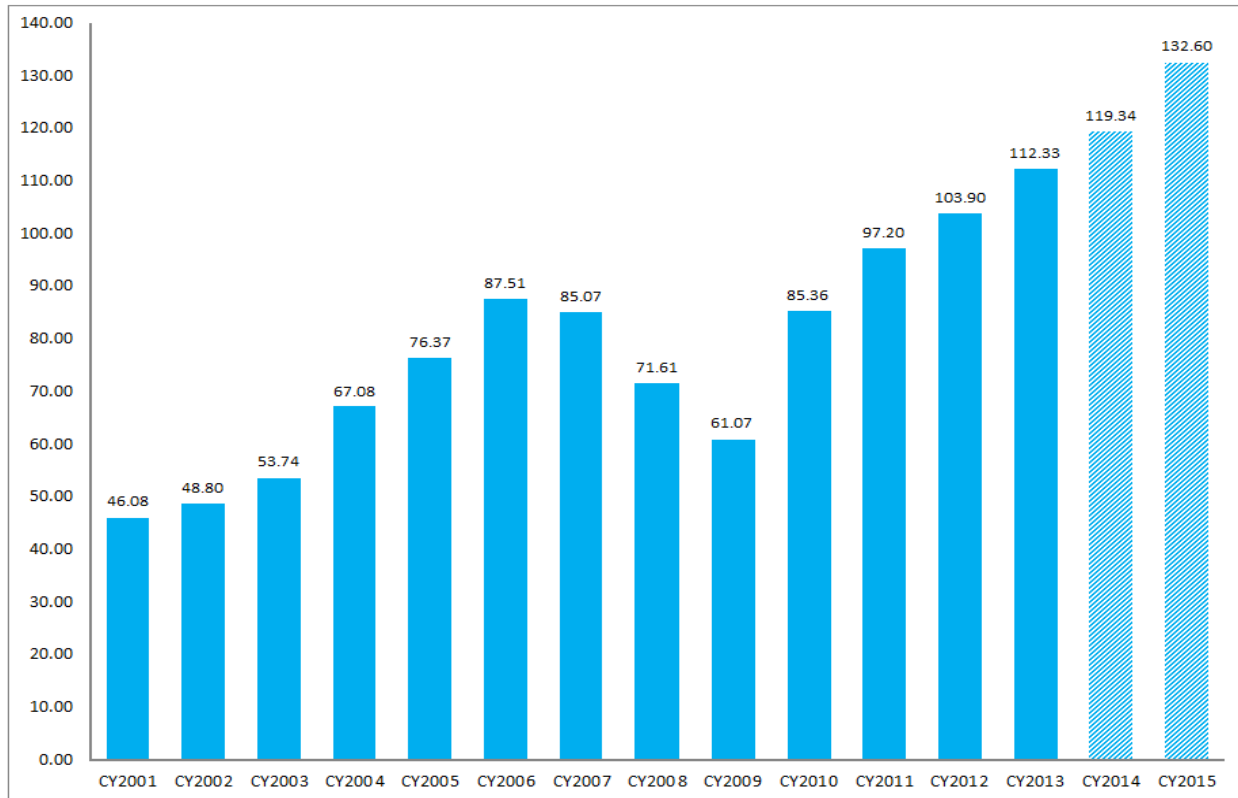


Change in Q214 Bottom-Up EPS vs. Price (Trailing 26-Weeks)

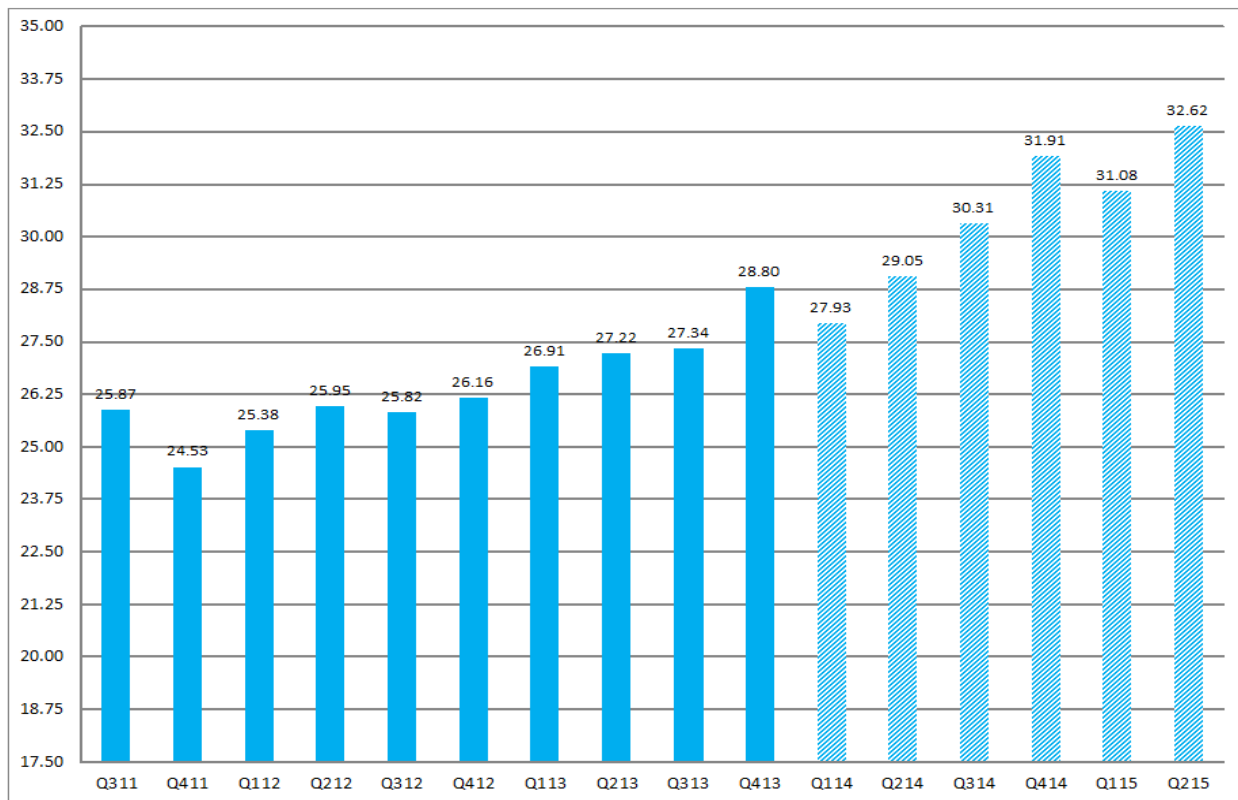


## Bottom-up EPS Estimates: Current & Historical

Calendar Year Bottom-Up EPS Actuals & Estimates

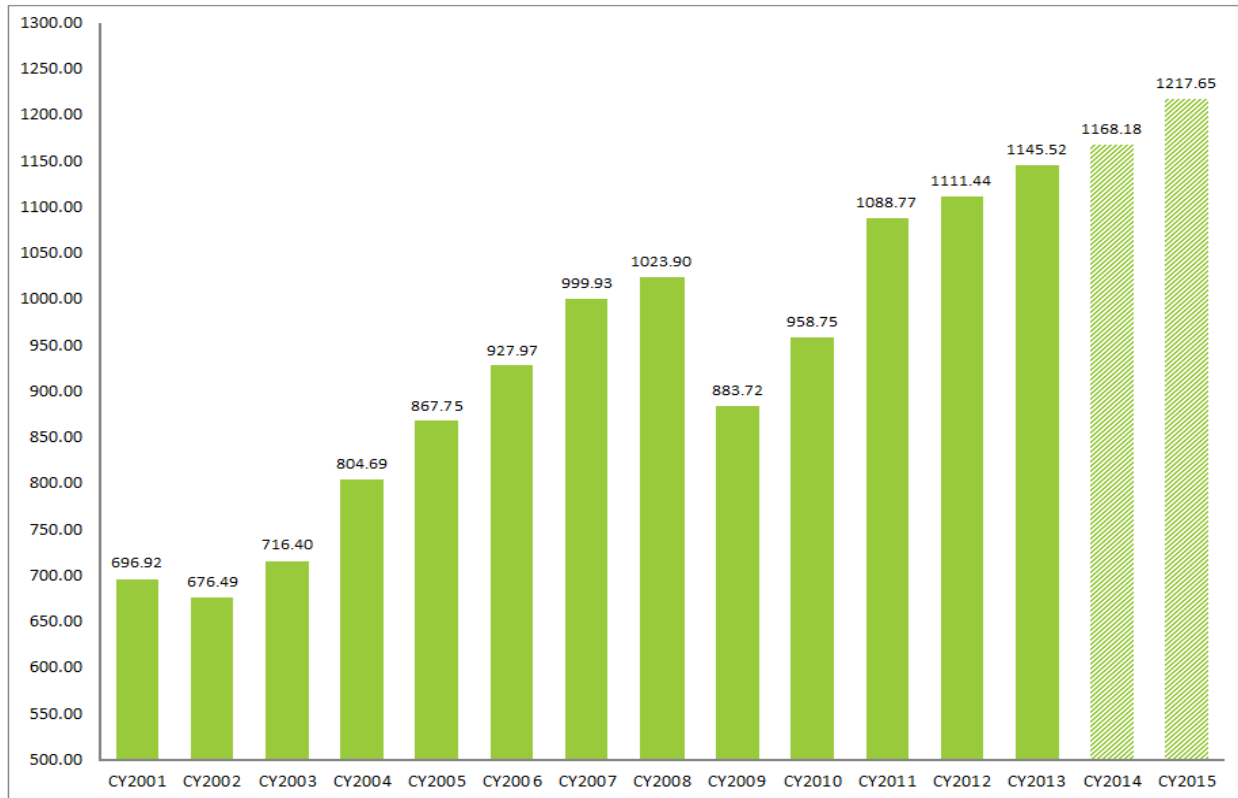


Quarterly Bottom-Up EPS Actuals & Estimates

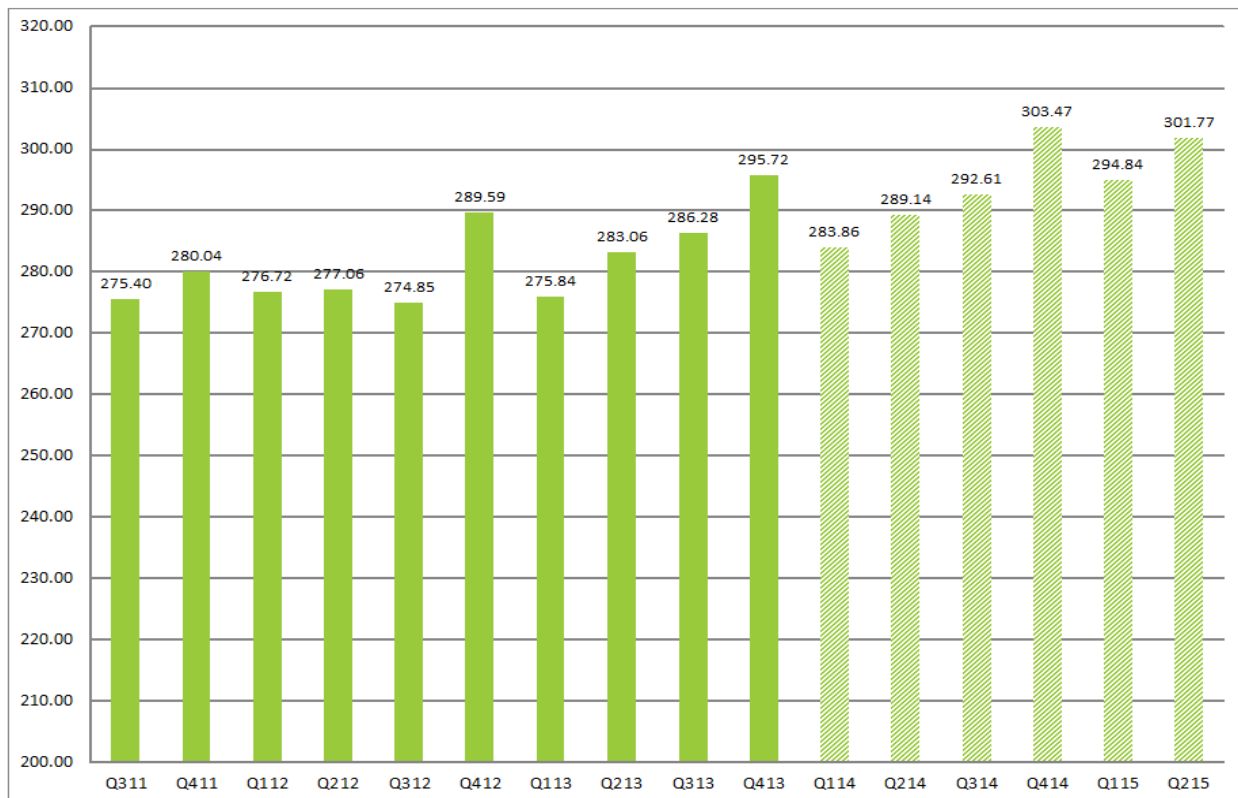


## Bottom-up SPS Estimates: Current & Historical

Calendar Year Bottom-Up SPS Actuals & Estimates

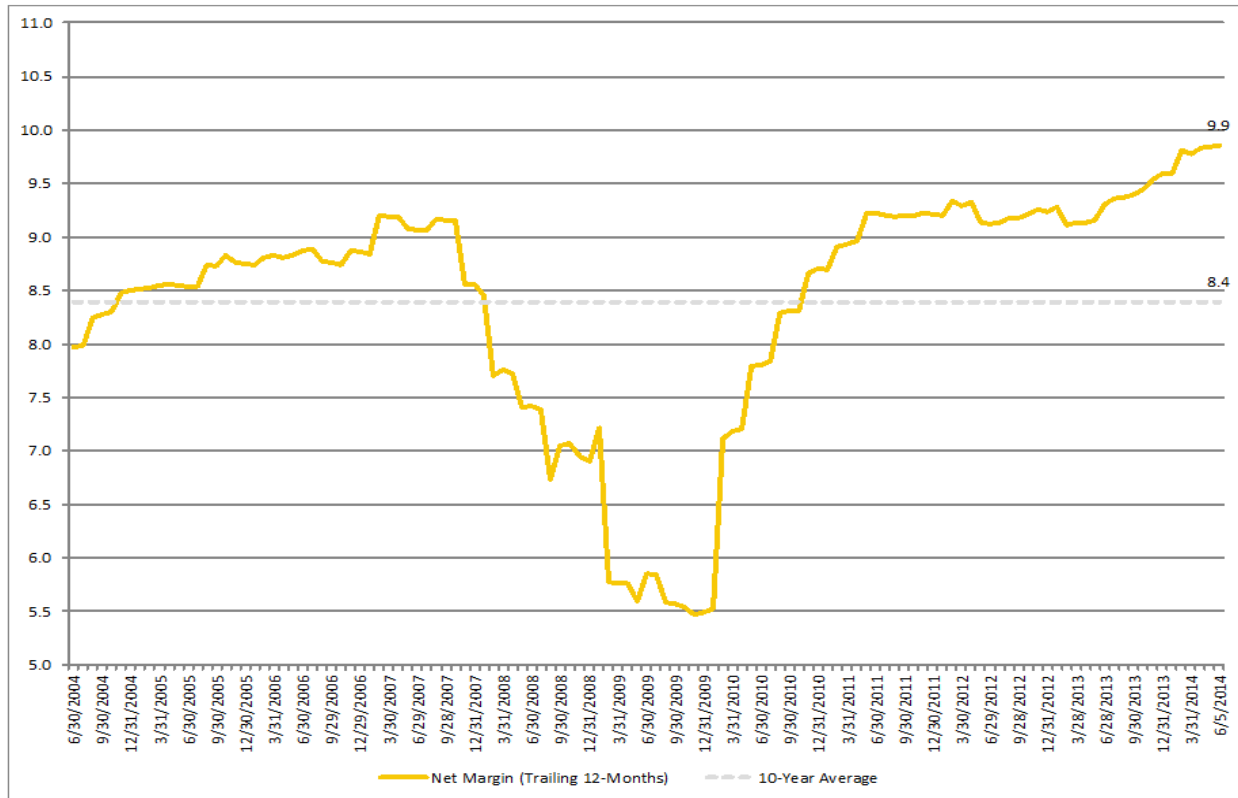


Quarterly Bottom-Up SPS Actuals & Estimates

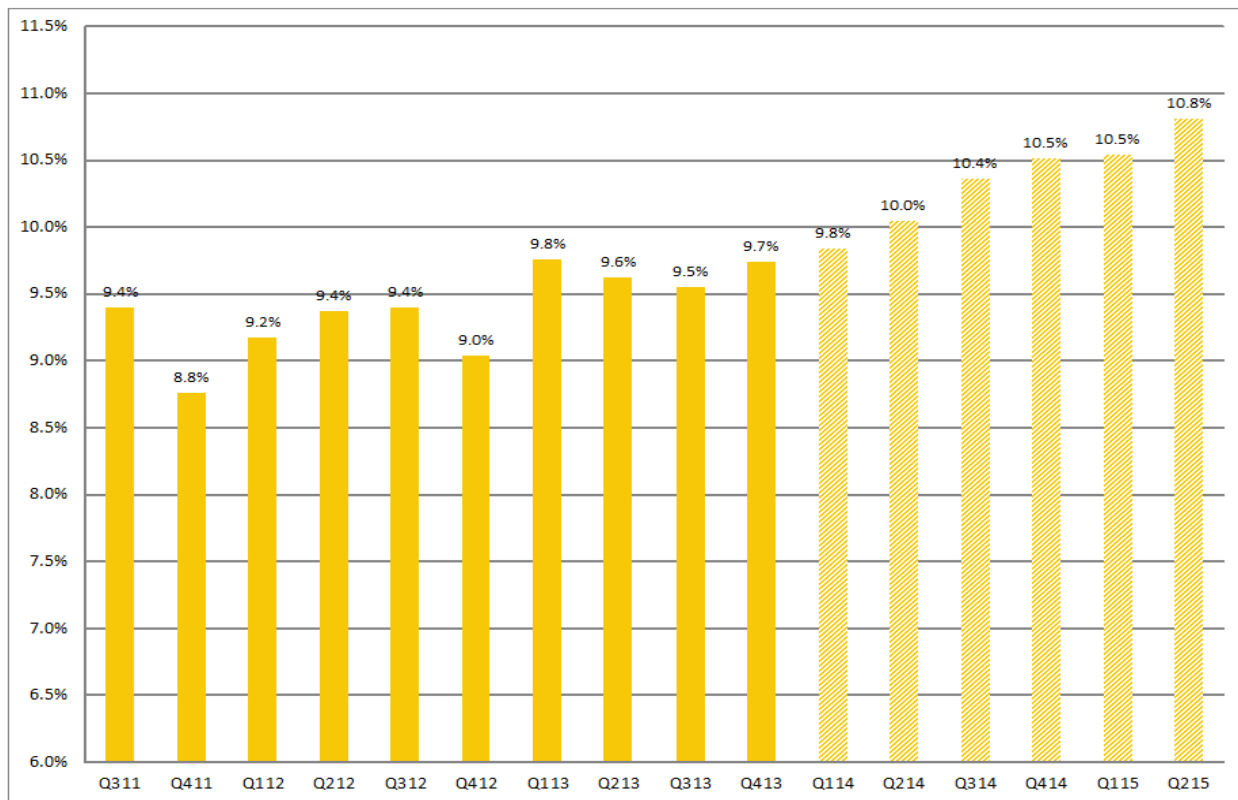


## Net Margins: Current & Historical

Trailing 12M Net Margin: 10 Years

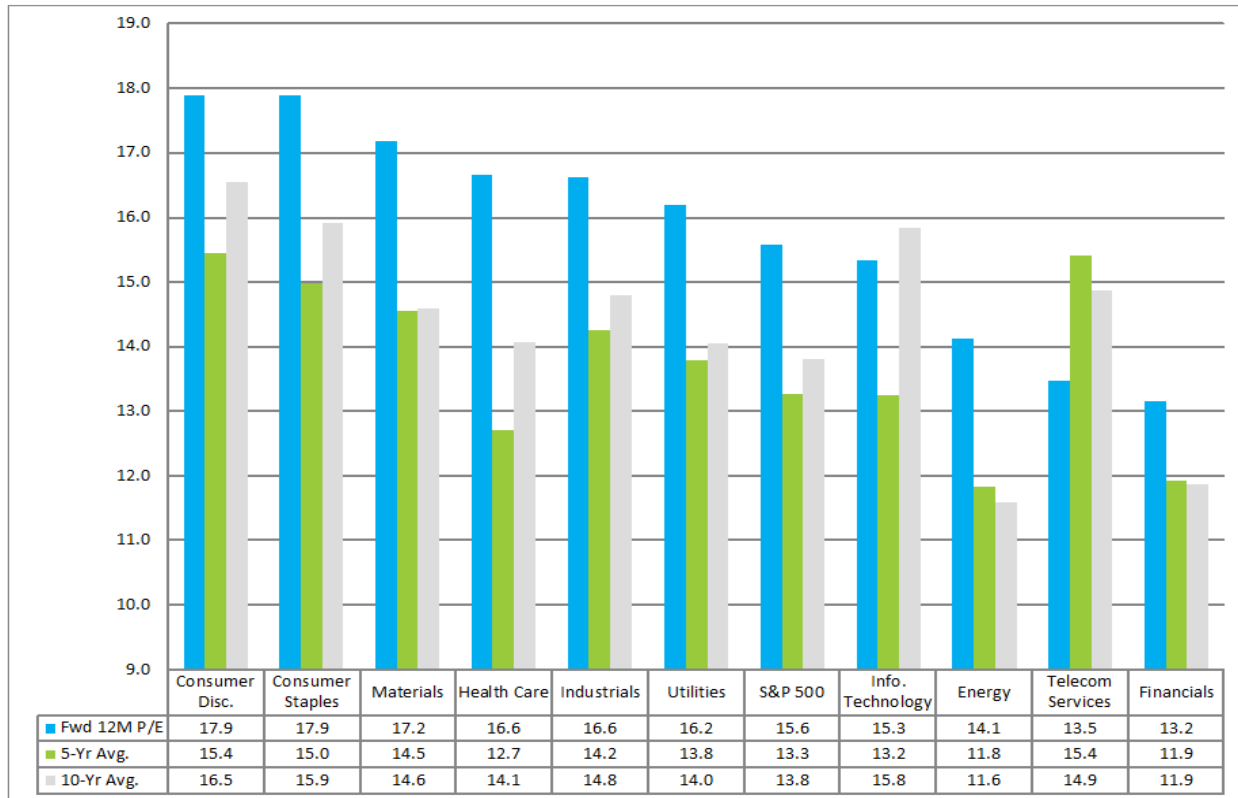


Quarterly Net Margins (Bottom-Up EPS / Bottom-Up SPS)

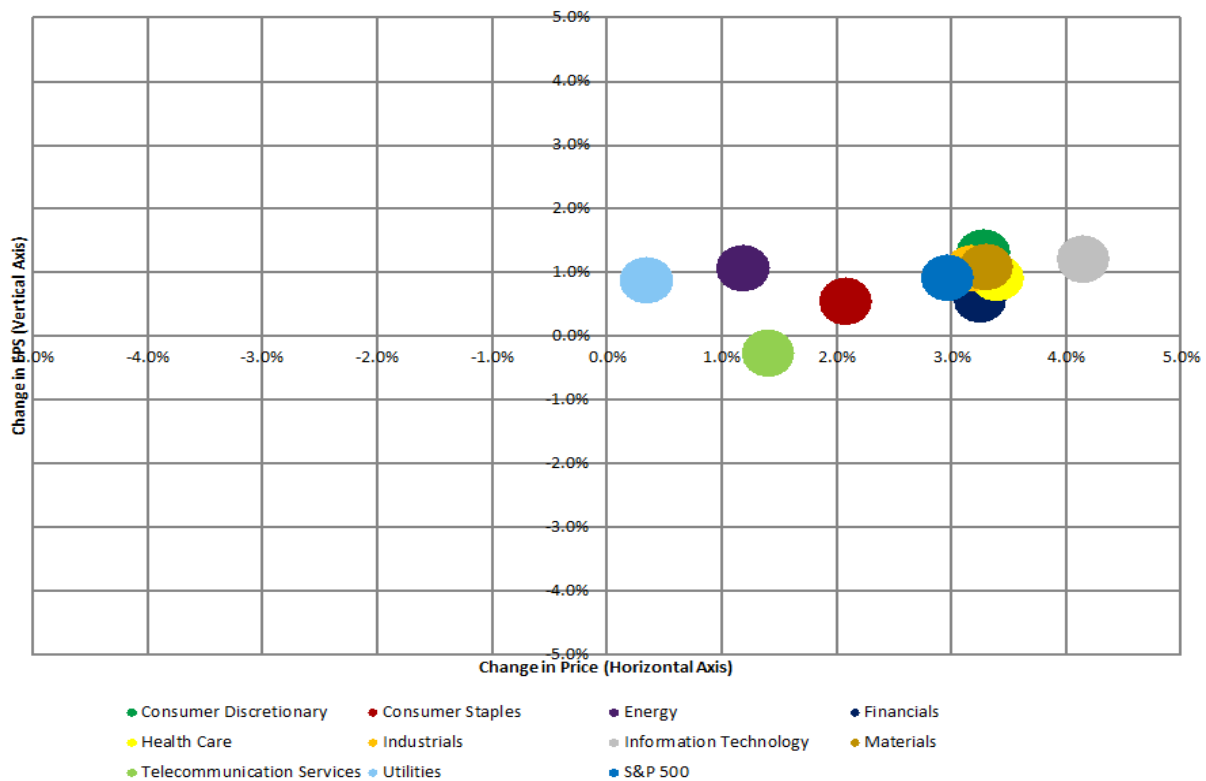


## Forward 12M Price / Earnings Ratio: Sector Level

Sector-Level Forward 12-Month P/E Ratios

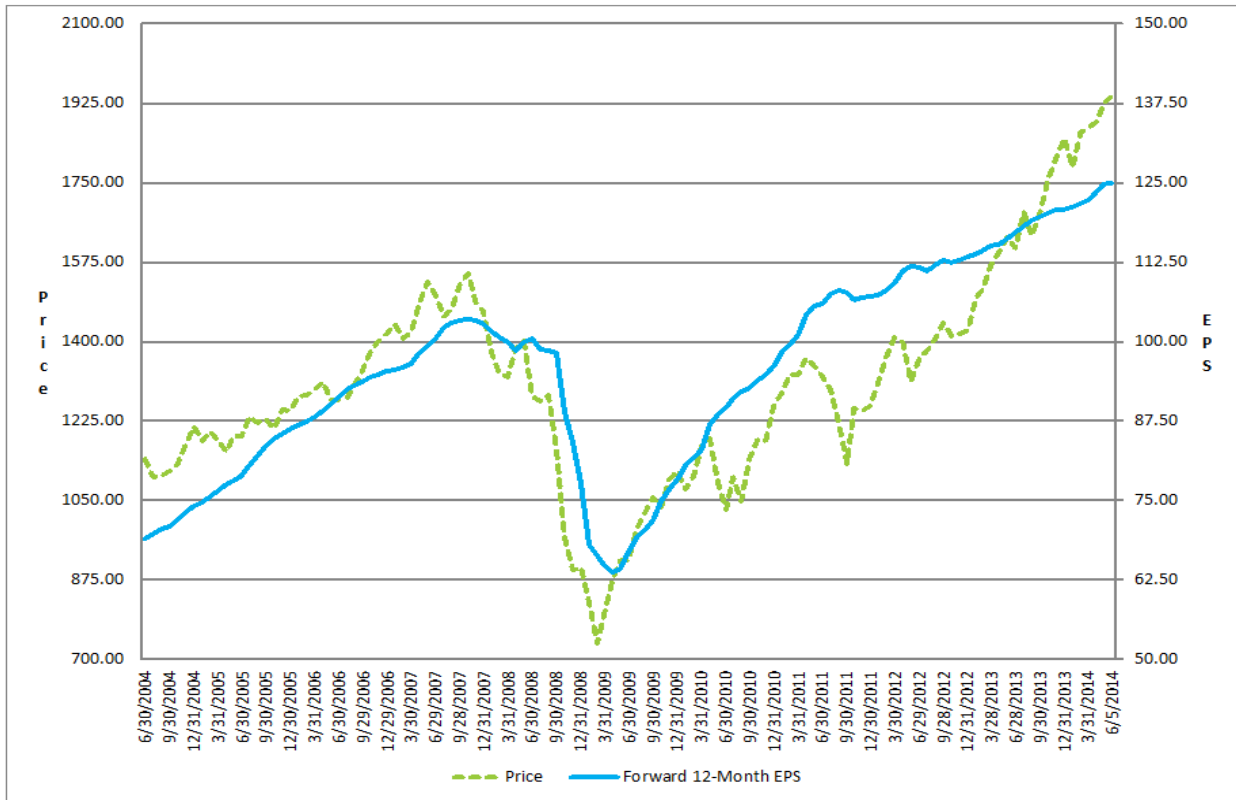


Sector-Level Change in Price vs. Change Forward 12M EPS: 1-Month

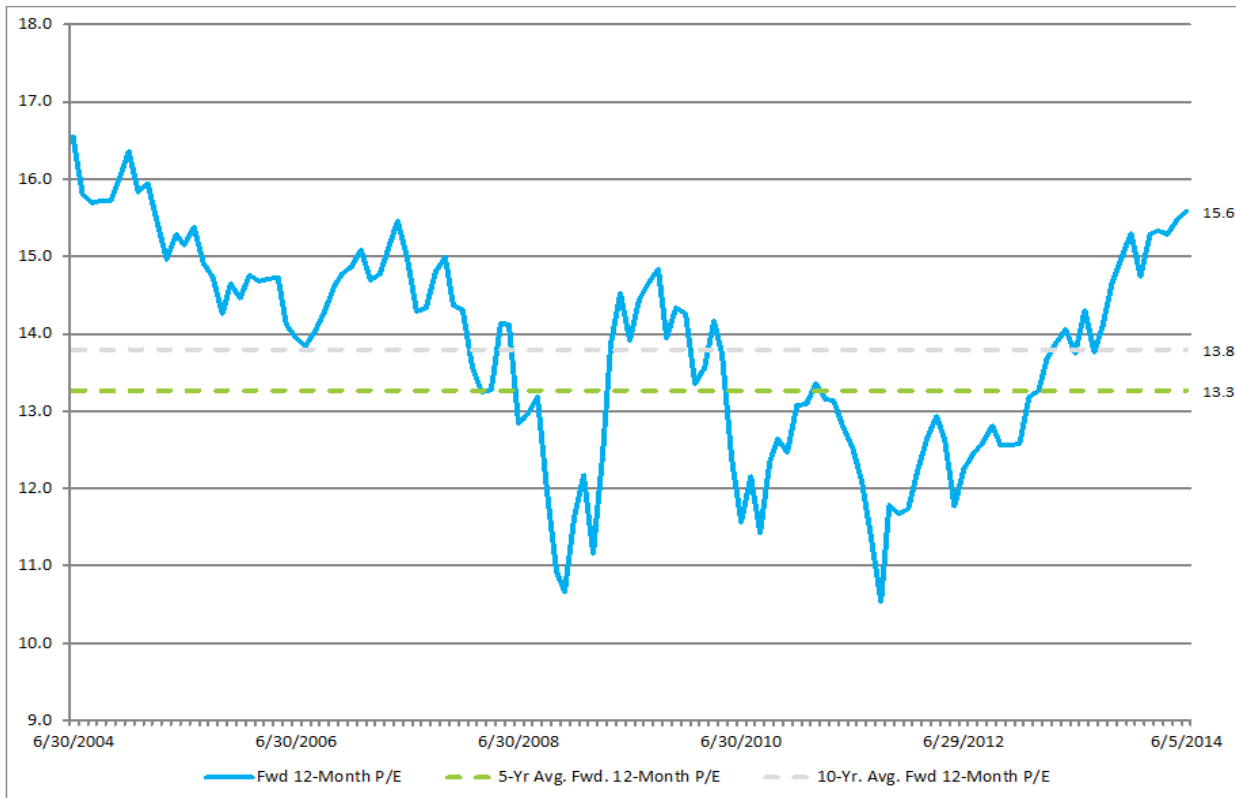


## Forward 12M Price / Earnings Ratio: Long-Term Averages

Change in Price vs. Change in Forward 12M EPS: 10-Year

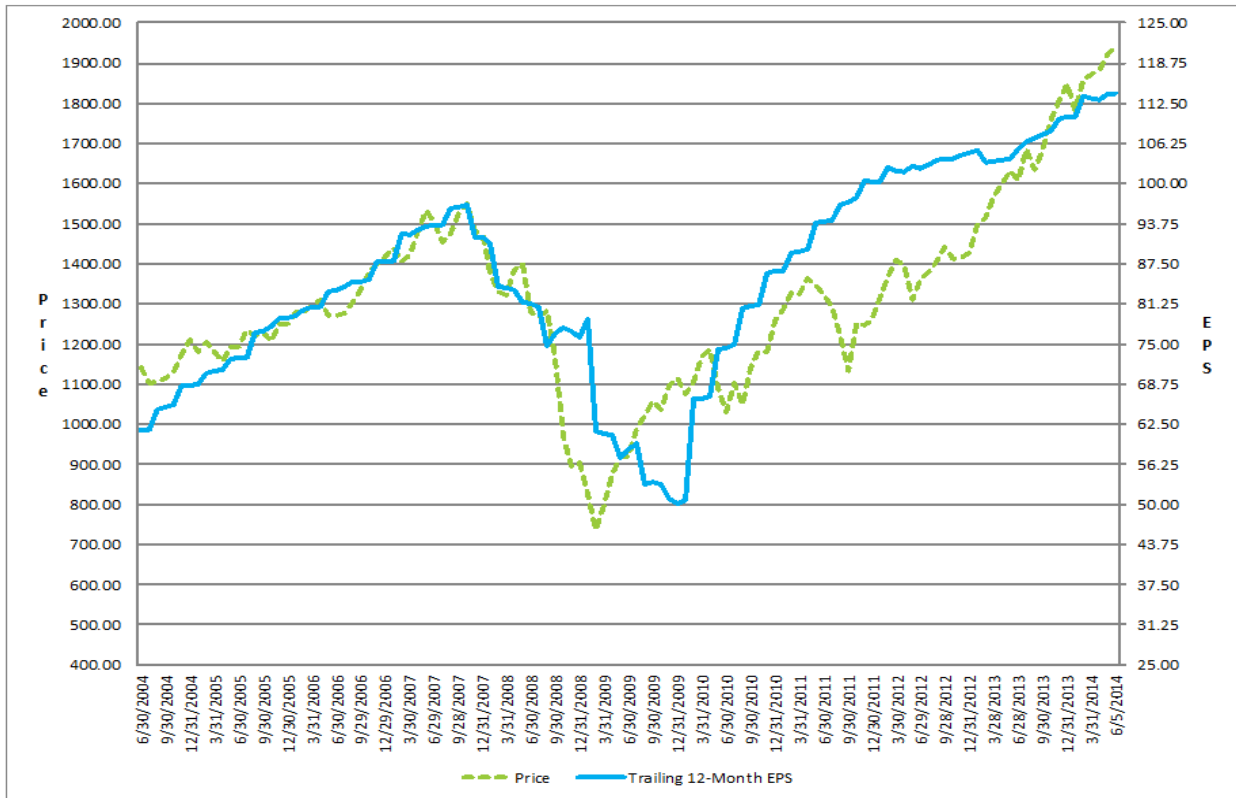


Forward 12M P/E Ratio: 10-Year

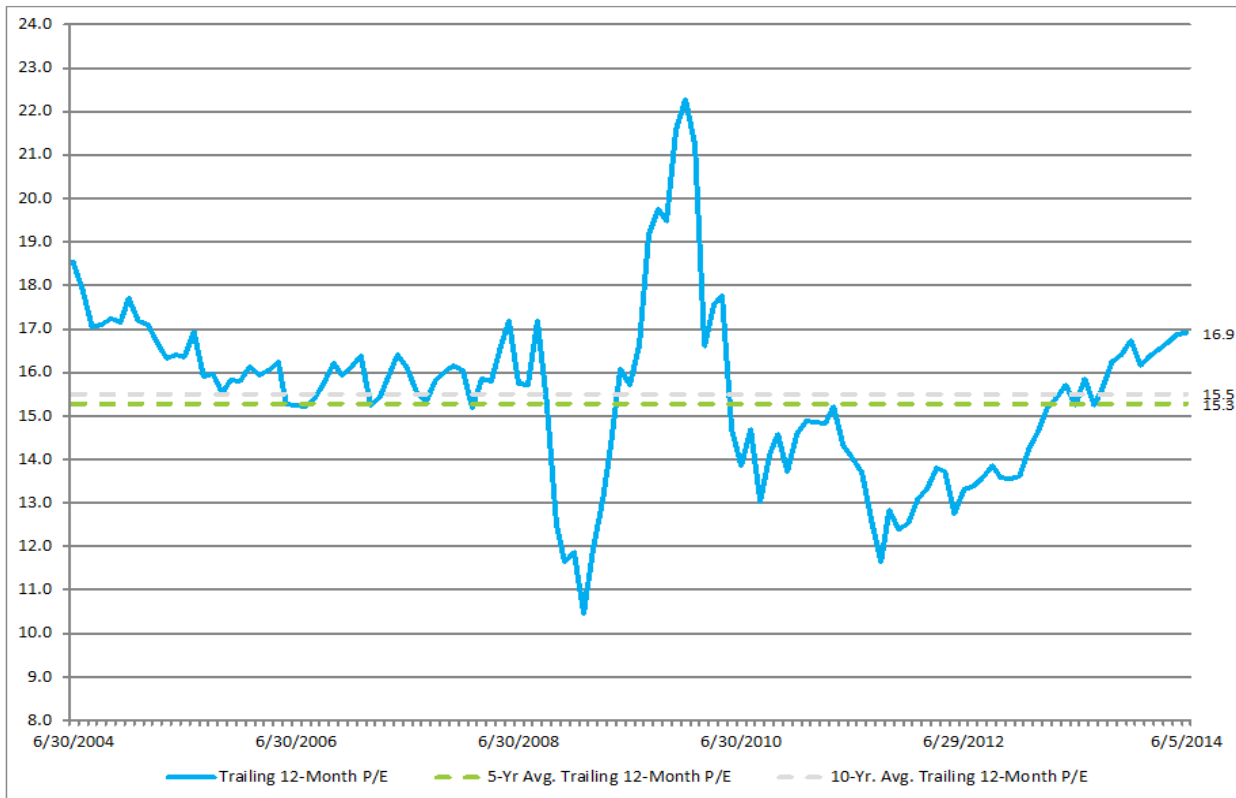


## Trailing 12M Price / Earnings Ratio: Long-Term Averages

Change in Price vs. Change in Trailing 12M EPS: 10-Year



Trailing 12M P/E Ratio: 10-Year





## Important Notice

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